ANNUAL REPORT

Year ended 30 June 2008

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Letter of Transmittal

The Governor

Bank of Mauritius
Port Louis

20 July 2009

Dr. The Honourable Ramakrishna Sithanen, G.C.S.K.,
Vice-Prime Minister and Minister of Finance
and Economic Empowerment,
Government House,
Port Louis.

Dear Vice-Prime Minister and Minister of Finance and Economic Empowerment

Annual Report and Audited Accounts 2007-08

In accordance with the provision of Section 32 (3) of the Bank of Mauritius Act 2004, I transmit herewith the forty-first Annual Report of the Bank, which also contains audited Accounts of the Bank for the year ended 30 June 2008.

Yours sincerely

Rundheersing Bheenick

Statement from the Governor

In keeping with the long tradition at the Bank, I am pleased to offer some comments on the economic performance of the country during the Financial Year 2007/08 (FY 08) and a cursory review of the operations of the Bank. I will also touch on some of the steps which we have taken during the year to heighten the visibility of the Bank and enhance its operational efficiency.

The year has seen sustained economic activity with real GDP recording above-trend growth of 6.0 per cent, against 5.0 per cent in the preceding year. This was mainly driven by the commendable performance in the tourism and construction sectors. Most economic indicators improved and capital formation, excluding the purchase of aircraft and marine vessel, accelerated. Unemployment continued its decline from 9.1 per cent at end-2006 to 8.5 per cent in 2007 to stand at 7.2 per cent at end-June 2008. The budget deficit dropped for the second consecutive year reaching 3.3 per cent, compared to 4.3 per cent in FY 07, as Government pursued its fiscal consolidation efforts.

During the year under review, broad money liabilities grew by 17.1 per cent while bank credit to the private sector increased by 18.6 per cent, compared to 8.6 per cent and 10.0 per cent respectively over the preceding period. Inflation eased from 10.7 per cent in FY 07 to 8.8 per cent in FY 08 but inflationary pressures continued to be a cause of concern.

On the external front, the current account deficit widened to Rs22,224 million in FY 08, from Rs17,415 million in the preceding period. The deterioration reflected the rising merchandise account deficit. This was, however, partly offset by surpluses recorded on the services, income and current transfers accounts. The current account deficit was partly financed by higher Foreign Direct Investment (FDI) net inflows and an increase in other investment liabilities. Net FDI reached Rs8,597 million in FY 08 against Rs7,851 million in FY 07. FDI, mainly from the United Kingdom, Switzerland and France, went principally into the 'Financial Intermediation' and 'Hotels and Restaurants' sectors. The overall balance of payments, excluding valuation changes, showed a surplus of Rs9,110 million in FY 08, nearly 50% higher than the surplus of Rs6,603 million in the preceding period.

A strong and stable banking sector has been the hallmark of our financial landscape over the years. It has withstood shocks and turbulence and showed solid resilience. This comes essentially from the inherent strength of the balance sheets of banks, good risk-management practices and profitable operations on the back of a benign non-performing loan portfolio — aided, I must say, by well-structured regulatory and supervisory practices of the Central Bank.

While the banking sector in other parts of the world had started showing the first signs of strain triggered by the sub-prime financial crisis in the United States, banks in Mauritius continued on a robust growth path. Deposits grew by 23.4 per cent from Rs435,154 million at end-June 2007 to Rs537,077 million at end-June 2008. Advances increased by 17.0 per cent from Rs304,536 million to Rs356,316 million during this period. The banking sector's earnings were buoyant, with aggregate profits of banks going up from Rs9,247 million in FY 07 to Rs11,351 million in FY 08. To complete this rosy picture, the non-performing loans portfolio remained static at a low level of 2.4 per cent of total advances.

The banking sector witnessed a new entrant during the year, taking the number of banks to 19 at end-June 2008. Banks expanded their local and regional reach with additional branches enlarging the network from 178 to 186 branches. Our national banking network won accolades for being the third-best in the world, and the best in Africa, from the World Bank in its "Banking the Poor" study.

The implementation of Islamic Banking got closer to reality, with the issue of guidelines by the Bank and the amendment of tax legislation to create a level playing field. The move to Basel II was an important task on which the Bank was engaged. In collaboration with banks, the final guideline on Standardised Approach to Credit Risk was issued, paving the way for the eventual adoption of Basel II as the basis for capital-adequacy assessment, after an initial year-long parallel run.

The smooth running-in of the Monetary Policy Committee (MPC) was a challenging experience as members — from outside the Bank, and indeed in one case from outside the country — were entrusted with this new collective responsibility of weighing the risks to inflation and economic growth before determining the Key Repo Rate. As provided in the Bank of Mauritius Act 2004, the Bank publishes a Monetary Policy Statement after each MPC meeting to explain the main assessments and findings of the MPC. The Statement discloses the overall voting pattern of the MPC members. In line with the practice in many central banks around the world for heightened transparency and accountability in the monetary policy decision-making process, I have initiated consultations with a view to publishing the minutes of the MPC as well as the individual votes of members.

I believe that a better and fuller understanding of real-sector issues plays an important part in the policy and regulatory work of the Bank and in monetary policy decisions. I encouraged on-going consultations with private/real-sector stakeholders. I am pleased that the regular roundtable discussions, organised prior to every meeting of the MPC, with real-sector operators have proved invaluable to gauge their perceptions with regard to specific issues as well as to gain a better understanding of the external constraints which they might be facing.

In spite of the fact that central banks are interventionist by nature and design, I have tried, as far as possible, to limit our market interventions to market-supporting measures and allowed greater free play of market forces. In the domestic foreign exchange market, the Bank has intervened to smooth out unwarranted volatilities arising either from shortage or excess of foreign exchange. Between December 2007 and April 2008, the Bank was particularly active and intervened to purchase a total amount of USD 230.0 million, EUR 46.0 million and GBP 1.0 million. From May 2008 to June 2008, the Bank intervened again, but this time on the other side of the market, and sold a total amount of USD 45.0 million to alleviate excessive demand pressure.

In the domestic money market, to reduce excess liquidity prevailing in the market and to keep overnight interbank interest rates within the corridor around the Key Repo Rate, the Bank conducted a number of reverse repos and also issued Rs14 billion of Bank of Mauritius Bills. There seemed to be a disconnect between excess liquidity, as shown by forecasts from the Bank's model, and the bidding behaviour of banks for official paper. In an attempt to tackle the problem, a new facility in the form of a Special Deposit was established in November 2007.

In April 2008, I initiated a series of operational changes in our liquidity management to strengthen the Monetary Policy Framework. Auctions of Bank of Mauritius Bills which are issued for liquidity management purposes and that of Treasury Bills were thenceforth held separately. Moreover, in an effort to enhance market liquidity, improve the price-discovery process, and develop a more effective transmission of policy decisions, the Bank worked on plans to re-introduce over-the-counter sales of Bills and Treasury Notes to the public which was done on 24 July 2008.

The number of primary dealers was also increased from five to eight to spur more competition in the secondary market. Generally, the outcome of the measures to develop the secondary market has been fairly moderate but it constitutes a good basis to build on for the coming years.

The Bank was engaged in discussions with the Treasury regarding improving debt management and its eventual take-over of the debt management functions from the Debt Management Unit of the Ministry in July 2008. We will elaborate further on this in our next issue.

In the course of my official missions, I engaged in consultations with the Bank for International Settlements and the Sovereign Investments Partnership of the World Bank with a view to enhancing the return on our foreign exchange reserves. I am happy to say that both institutions have conducted their Peer Reviews of our portfolio management and submitted their recommendations which are currently being analysed for implementation.

I did not overlook the importance of having a structured collaboration and co-ordination between our two financial sector regulatory and supervisory bodies. A *Protocole D'Accord* was signed on 12 July 2007 with the Financial Services Commission. A joint Bank of Mauritius / Financial Services Commission Co-ordination Committee was also set up to activate and expand on the existing Memorandum of Understanding between the two bodies to consolidate the supervision of the financial sector and harmonise the regulatory framework. In the same vein, I am pleased to say we have very recently entered into a formal Memorandum of Understanding with the Central Statistics Office and I hope to elaborate on this new collaborative effort in the next Annual Report.

The Mauritius Credit Information Bureau, housed at the Bank, is the only borrower information repository in the country. It has contributed to lowering the proportion of non-performing loans. To provide a complete picture of borrower information, the Bank has eliminated minimum reporting thresholds since March 2008 and started work on expanding the coverage to non-banks, in particular leasing companies, the Mauritius Housing Corporation as well as insurance and finance companies. Again, this is a subject to which I shall revert in our next Report.

The Bank continued its active involvement in regional and international fora. As the reporting year ended, we were preparing to host the 7th meeting of Governors of the Eastern Africa Sub-Regional Committee of the Association of African Central Banks in July 2008. The Bank has also been deeply engaged in the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) meetings, committees and workshops to achieve macroeconomic convergence, among other goals. The Bank holds the permanent chair of the Sub-Committee of SADC Banking Supervisors. The relationships with other central banks in the region were further reinforced when the Bank had the honour to welcome Governor Y.V. Reddy from the Reserve Bank of India and Governor P. Acquah from the Central Bank of Ghana to deliver memorial lectures.

It is the practice for Central Banks around the world to commemorate milestones in their history. The 40th anniversary year of the Bank of Mauritius coincided with the 40th anniversary of the independence of Mauritius and we decided to mark this special occasion with a series of activities spanning over a period of four months. The commemorative events started on 14 August 2007 and included a Charity Dinner to aid Epilepsy and Alzheimer associations, sponsorship of the national Inter-Clubs Youth Championships, a Blood Donation day, and the turning of the first sod for the establishment of a bamboo garden in the Midlands region — the latter perhaps an unwitting precursor of the visionary project *Maurice Ile Durable* that was unveiled later in 2008 by the Prime Minister, Dr The Honourable Navinchandra Ramgoolam. Some pictorial highlights of the commemorative events are included in this Report.

The Bank also initiated a Financial Literacy Programme (FLP) aimed at raising the level of awareness among the public about the roles and functions of the Bank and of the financial system in general. The FLP, which is expected to be an on-going programme, comprised such activities as an Essay-writing Competition, a Monetary Policy Challenge, a series of Memorial Lectures and a Consumer Education week. A Banknote Design Competition was launched in preparation for a new family of banknotes, and a special silver commemorative coin marking our 40th anniversary as well as a new twenty-rupee circulation coin were launched.

To respond to the challenges thrown up by a rapidly-growing and dynamic financial sector, and to do so with greater efficiency, the Bank engaged in a major restructuring of its internal organisation. The structure is now flatter, with the creation of new Divisions within the Bank. The move to the Bank Tower, our new premises, was completed during the year under review. Plans are in hand to convert the old building to accommodate a Knowledge Management Centre, an Auditorium, a Conference Room, a Museum and a Wellness Center for employees. The development of the Rodrigues branch was a priority for us as we have explored better ways of serving the community there. The foundation stone for a new building for our Rodrigues branch was laid on 24 November 2007.

I very much regret that this Annual Report is being produced so long after the statutory deadline of October 2008 – the net result of blind adherence to well-meaning, but clearly outdated, procedures and practices, which are crying out for modernisation if we are to avoid such Kafka-esque nightmares in future.

In closing, let me record my gratitude to the Prime Minister for his continued support since he called upon me to take up the position of Governor of the Bank. A special word of thanks also goes to the Vice Prime Minister and Minister of Finance and Economic Empowerment.

I believe that the Bank has a major contribution to make to the on-going policy dialogue with decision-makers and opinion leaders in re-shaping economic strategy and enhancing the economic prospects of our country. In this exercise, I rely a lot on the dedication and professionalism of a hard core of Bank staff, led by my First Deputy Governor. I take this occasion to thank them and their colleagues for the hard work put in during the year. I have a special thought for the many staff members who retired from the Bank's service during the year, in many cases, after having served it since it started operations.

I also wish to express my thanks to all those who have contributed to the fulfilment of our mission during the year and add a special note of thanks to Chief Executives of banks, of other financial institutions, and of the Mauritius Bankers Association for their collaboration and continued support in our joint effort to raise the profile of Mauritius as a respected international financial centre. Furthermore, I wish to thank members of the Board of Directors and express my appreciation to Directors, Mr A. A. A. R. Sohawon and Mr D. A. Moodely, whose term expired in September 2007, for their dedicated service to the Bank.

At the helm of the country's Central Bank, I can assure you that the Bank will continue to play its indisputable role in promoting the economic welfare of the country.

Rundheersing Bheenick

8 July 2009

40th Anniversary Celebrations of the Bank of Mauritius

(1 9 6 7 - 2 0 0 7)

A moment of unity for staff around an Interfaith Prayer ceremony on 18 August 2007

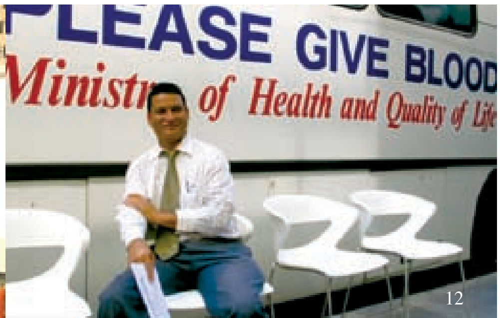
The national Inter Club Youth Championships held on 1 September 2007

Memorial Lecture Series held on 22 and 25 October 2007

The silver commemorative coin launched for the occasion

Welcome of dignitaries at the Commemoration Dinner on 24 August 2007

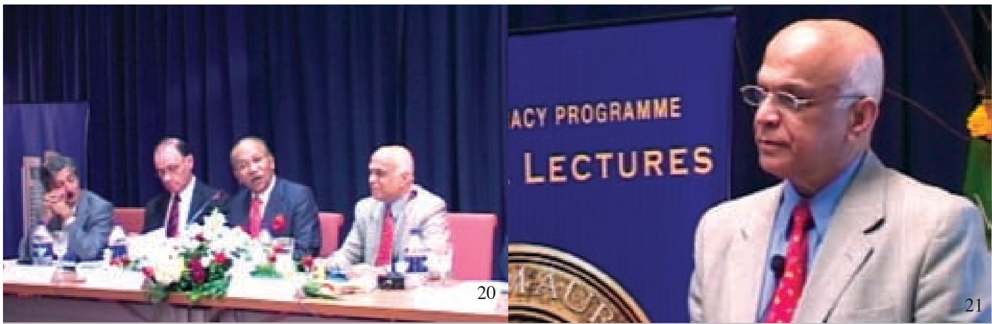
Health Week held in October 2007



Blood Donation day on 26 October 2007

Six-a-Side tournament for staff
held on 3 November 2007

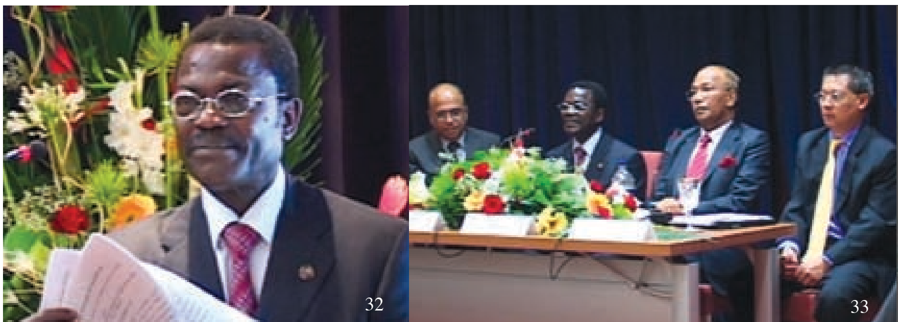
Staff reunion over lunch on 10 November 2007



Memorial Lecture held on 15 November 2007

Charity Dinner proceeds handed over to beneficiary associations

‘Turning of the First Sod’ Ceremony for a bamboo garden project at Midlands



Governor P. Acquah and discussants at a Memorial Lecture on 5 December 2007

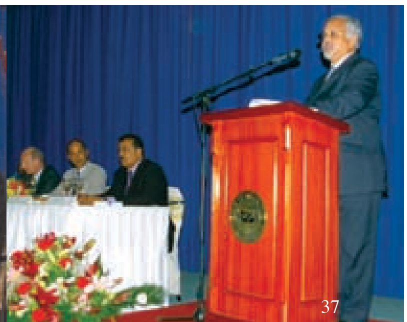
Award Ceremony of Banknote Design Competition on 6 December 2007

The Rs20- coin launched during the celebrations

Laying of foundation stone of Bank's new building at Rodrigues and
launch of Consumer Education Campaign on 24 November 2007 at Port Mathurin

Memorial Lecture held on
3 December 2007

Open Day at the Bank for staff and their families
on 1 December 2007



Launch of the silver commemorative coin and a Rs20.- coin at the Closing Dinner on 6 December 2007

1 Review of the Economy: 2007-08

During fiscal year 2007-08, the Mauritian economy performed strongly against the backdrop of a global economic slowdown and financial turmoil. The pace of economic activity accelerated to post a real growth rate estimated at 6.0 per cent for fiscal year 2007-08 from 5.0 per cent in the preceding year. Excluding sugar, the economy grew at an even faster pace of 6.6 per cent. The unemployment rate steadily declined to 7.4 per cent in the second quarter of 2008. The current account deficit as a percentage to Gross Domestic Product (GDP) increased from 8.0 per cent a year earlier to 8.8 per cent while overall balance of payments recorded, for the second year running, a surplus largely on strong private capital inflows. Net international reserves were up by 0.5 per cent to Rs83.9 billion as at end-June 2008 representing an import cover of 7.9 months. The fiscal policy stance remained focused on the consolidation of public finances, which yielded a further reduction in the budget deficit to GDP ratio to 3.3 per cent. Amid rising global food and energy prices, consumer price inflation stayed high at 8.8 per cent, albeit lower than the double-digit figure of 10.7 per cent in 2006-07. The Bank, throughout fiscal year 2007-08, balanced the risks to the inflation and growth outlook and set interest rates in accordance with its overriding objective of achieving price stability over the medium term and promoting orderly and balanced economic development.

The robust economic expansion during the year came from solid growth in the key sectors of the Mauritian economy. A strong recovery in distributive trade activity, higher growth rates in transport, storage and communication, and in real estate and business activities, more than offset the slowdown in construction, manufacturing, hotels and restaurants, financial intermediation, and public services.

The distributive trade sector, which had contracted in the preceding fiscal year by 1.9 per cent, recovered strongly in 2007-08 with a growth rate of 8.7 per cent. Output in transport, storage and communications expanded by 8.2 per cent compared with 6.9 per cent a year ago, while output growth in real estate, renting and business activities sustained the growth momentum of the preceding year, expanding by 7.9 per cent. The agricultural sector for the third year in a row contracted, recording a negative growth rate of 3.5 per cent in 2007-08 from an estimated negative 2.3 per cent in the preceding year largely due to sugar production shrinking by 13.6 per cent on unfavourable climatic conditions. Manufacturing sector output expanded by an estimated 3.4 per cent in 2007-08, lower than the 3.9 per cent recorded in the preceding year. Higher activity rate in food production combined with lower but still positive growth rate in textile compensated for the contraction in sugar production and in other manufacturing. Despite difficult trading conditions, real output of the textile sector recorded a positive growth rate of around 5.0 per cent - lower than the 8.0 per cent a year ago. Among the key sectors slowing down was the construction sector, which recorded a lower growth rate of 11.2 per cent in 2007-08 from 16.9 per cent in the preceding year. The deceleration was partly explained by the faster rate of growth in residential building, despite the rising costs of land and construction works, being offset by the lower growth rate in non-residential building. Real output of hotels and restaurants, which had expanded by 10.5 per cent in the preceding year after tourist arrivals increased by 11.4 per cent, slowed down in 2007-08 to 7.8 per cent reflecting a lower growth of 8.2 per cent in tourist arrivals. The pace of activity in financial intermediation decelerated to 8.1 per cent from 9.3 per cent a year ago.

The acceleration in real GDP growth mainly reflected a deceleration in households' spending and in gross domestic fixed capital formation, as well as a larger increase in exports and imports. As a percentage of GDP at market prices, aggregate final consumption expenditure fell from 84.5 per cent in the preceding fiscal year to 83.9 per cent in FY2007-08. Over the same period, household final consumption expenditure as a percentage of GDP at market prices increased from 70.8 per cent in 2006-07 to 71.4 per cent while the ratio of General government final consumption expenditure to GDP at market prices declined from 13.7 per cent to 12.5 per cent.

GDFCF in real terms expanded at a lower rate of 8.9 per cent in 2007-08 compared with an increase of 24.4 per cent in the preceding fiscal year. The ratio of GDFCF to GDP at market prices remained flat at 25.6 per cent in 2007-08. Excluding aircrafts and marine vessels, the growth rate of GDFCF accelerated from 13.3 per cent to 15.2 per cent in 2007-08. Within GDFCF, building and construction work, which expanded by 12.9 per cent - 18.8 per cent in 2006-07 - contributed for 7.1 percentage points of the GDFCF growth rate while machinery and equipment contributed for the remaining 1.8 per cent.

Residential fixed investment grew at a faster rate of 9.0 per cent while non-residential fixed investment continued to grow at a brisk pace of 27.2 per cent in 2007-08, albeit lower than the 49.3 per cent in the preceding fiscal year. Gross capital formation in infrastructure and other construction contracted - for the second year in a row - by 10.8 per cent. Excluding aircrafts and marine vessels, gross capital formation in machinery and equipment surged by 18.6 per cent in 2007-08 from 6.0 per cent in the preceding fiscal year, with passenger cars and machinery and equipment other than transport equipment contributing for 4.2 and 12.5 percentage points respectively of the growth rate.

The growth rate of exports of goods and services decelerated from 4.6 per cent in 2006-07 to 3.6 per cent while the rate of growth of imports of goods and services was higher at 8.1 per cent.

The population of the Republic of Mauritius, including Agalega and St Brandon, was estimated at 1,268,835 as at 1 July 2008. The total labour force rose by 5,400 to 570,500 in 2007 with the number of foreign and Mauritian workers increasing by 4,900 and 500 respectively. Reflecting robust economic activity, employment increased by 1.6 per cent in 2007 outpacing the growth rate of the labour force of close to 1 per cent. The rise in employment was fairly broad-based with the highest gains in real estate, renting and business activities, financial intermediation, and construction. Employment declined in agriculture, mining and quarrying, distributive trade, and public administration. Consequently, the rate of unemployment declined from 9.1 per cent in 2006 to 8.5 per cent in 2007. More recent data pointed to a further decline in the unemployment rate to 7.4 per cent in the second quarter of 2008.

Average monthly earnings in large establishments mirrored to a large extent the developments in the labour market. Between March 2007 and March 2008, average monthly earnings for the economy rose by 7.7 per cent with the high-growth sectors recording the largest increases: transport, storage, and communications (+13.5%), financial intermediation (+11.9%), real estate (+9.7%), wholesale and retail trade (+9.7%) and construction (+9.3%). Average monthly earnings in export-oriented sectors increased by 3.8 per cent - among the lowest across the economy- as the average is weighed down by textiles (+4.4%) and sugar (+0.6%). With the average consumer inflation for year ended March 2008 of 9.0 per cent, the real growth rate in average monthly earnings in some sectors has been negative. Meanwhile, data for 2007 showed that unit labour costs for the economy as whole grew by 6.7 per cent outpacing labour productivity gains of 3.7 per cent.

Consumer price inflation eased from 10.7 per cent in 2006-07 to 8.8 per cent in 2007-08. Steadily rising food and energy prices throughout the year, partly offset by a firmer rupee exchange rate, and second-round effects on other components of the representative consumer basket kept inflation on the high side relative to recent historical averages. Underlying trend measures of inflation, which are summarised by CORE1, CORE2 and TRIM10, conveyed a mixed picture of trend inflation. CORE2 and TRIM10 inflation rate steadily declined to 5.5 per cent and 6.5 per cent in June 2008 while CORE1 inflation, after having declined to 5.0 per cent in December 2007, picked up from January 2008 to record 6.6 per cent in June 2008.

Oil prices on the international market was on a rising trend during fiscal year 2007-08 and even reached the psychological barrier of US$100 per barrel in February 2008. The average price per barrel of NYMEX WTI (West Texas Intermediate benchmark crude oil), which dropped slightly by 1.4 per cent to US$63.5 in 2006-07, rose significantly by 52.8 per cent to US$97.0 in 2007-08. The average price per barrel of IPE Brent futures rose appreciably by 48.1 per cent to US$95.7 in 2007-08 compared to a marginal increase of 2.2 per cent for 2006-07. Higher oil prices on the international market led to a marked increase in the domestic prices of petroleum products. During fiscal year 2007-08, the prices of mogas and diesel oil went up on average by 14.2 per cent and 12.4 per cent respectively.

During fiscal year 2007-08, the basic thrust of monetary policy was geared towards striking the right balance between its dual mandate of maintaining price stability and promoting orderly and balanced economic development. The Bank of Mauritius Act 2004 was also amended towards the end of August 2007 to empower the Monetary Policy Committee (MPC) to formulate and determine monetary policy. In the course of fiscal year 2007-08, the Monetary Policy Committee (MPC) held six interest rate-setting meetings. The year however started with the Board of Directors of the Bank of Mauritius endorsing the recommendations of the MPC at its meeting of 30 June 2007 to raise the key Repo Rate by 75 basis points to 9.25 per cent on increasing risks to inflation against a backdrop of global interest rate tightening and rising inflation driven by high oil and commodity prices. The monetary policy stance remained unchanged at the two subsequent meetings in 2007. Thereafter, between February and June 2008, the MPC met on four occasions, out of which two were unscheduled meetings. Amid concerns that the economic slowdown in Mauritius' major trading partners would spill-over into the domestic economy and following reductions in policy interest rates by several major central banks, the MPC eased its key Repo Rate by a total of 125 basis points to 8.00 per cent per annum in three successive moves. At its last meeting on 20 June 2008, the MPC meeting left its key policy interest rate unchanged.

Monetary and credit developments during the year remained accommodative to inflation as reflected in the rapid rise in major monetary aggregates. Between end-June 2007 and end-June 2008, Broad Money Liabilities (BML) grew by 17.1 per cent compared with 8.6 per cent registered in the preceding fiscal year. The growth rate of depository corporations' domestic claims (excluding claims on GBL businesses) accelerated from 6.0 per cent in 2006-07 to 22.9 per cent. Claims on budgetary central Government (net) and on other sectors rose by 25.9 per cent and 22.2 per cent respectively while claims on GBL businesses grew at a lower rate of 10.9 per cent compared with 14.0 per cent in the preceding fiscal year. Net foreign assets (NFA) of depository corporations grew moderately by 0.6 per cent over the year in nominal terms. The lower growth rate in NFA was partly explained by the across-the-board appreciation of the domestic currency vis-à-vis major currencies.

The monthly average level of the monetary base went up from Rs22.4 billion in 2006-07 to Rs25.6 billion in 2007-08, or 14.4 per cent, compared to an increase of 8.0 per cent in 2006-07. The monthly average level of broad money liabilities rose from Rs207.1 billion to Rs236.0 billion, or 13.9 per cent, between end-June 2007 and end-June 2008, up from 9.5 per cent in 2006-07. Consequently, the average multiplier for broad money liabilities decreased from 9.3 in 2006-07 to 9.2 in 2007-08.

Money market conditions remained liquid with an estimated monthly average excess of Rs2.1 billion during the year. In April 2008, with a view to strengthen the Monetary Policy Framework implemented in December 2006, the Bank of Mauritius announced a series of operational changes in its management of liquidity with Bank of Mauritius Bills and Government of Mauritius Treasury Bills being auctioned separately. Since April 2008, Bank of Mauritius Bills are auctioned on Wednesdays whenever liquidity conditions so require while weekly auctions are carried for Government of Mauritius Treasury Bills on Fridays. BOM Bills with maturities of 28 days and 56 days have also been introduced to complement existing liquidity management instruments and are issued either at fixed rates and/ or through auction. The Special Deposits Facility (SDF) introduced in November 2007 to manage the excess liquidity in the system was maintained with the maximum period extended from 14 days to 21 days and the interest rate applicable on the SDF at 100 basis points below the key Repo Rate. The corridor around the key Repo Rate has been widened from +/- 50 basis points to +/- 125 basis points. Repurchase transactions are conducted at +/- 125 basis points below or above the key Repo Rate. A new Overnight Collateralized Facility at 150 basis points above the key Repo Rate subject to a borrowing quota has also been introduced and as lender of last resort the Bank has maintained the Standing Collateralised Facility without any borrowing quota at 400 basis points above the key Repo Rate. Largely as a result of the implementation of these new measures, some stability was restored in the money market towards the end of the fiscal year.

The consolidation of public finances brought about a further reduction in the budget deficit both in absolute value and as a ratio to GDP. In 2007-08, the budget deficit amounted to Rs8.3 billion compared with Rs9.4 billion in 2006-07 while as a ratio to GDP it fell nearly by 1 percentage point from 4.3 per cent to 3.3 per cent. This positive outturn was due to the growth rate of budgetary revenue exceeding budgetary expenditure. Buoyant tax revenue as a result of strong economic growth and rise in energy prices combined with a broader tax base and a rationalisation of the tax structure were among the factors contributing to raise tax revenue by 25.3 per cent in fiscal year 2007-08 compared with an increase of 7.9 per cent in the preceding fiscal year. Total derived expenditure and lending minus repayments increased by 19.3 per cent, out of which expenditure on goods and services, interest payments and current transfers & subsidies accounted for 1.2, 3.5 and 3.7 percentage points. Total public debt rose slightly from Rs122.1 billion at the end of June 2007 to Rs122.3 billion at the end of June 2008. As a percentage of GDP at market prices, total public debt declined from 55.7 per cent at the end of June 2007 to 48.6 per cent at the end of June 2008. A sound debt management strategy and the decision to abolish, effective 3 July 2007, the Consolidated Sinking Fund (CSF) helped contain the expansion of the public debt. With the abolition of the CSF, an amount of Rs5.8 billion of internal debt held by the CSF was extinguished.

Exchange rate movements during 2007-08 reflected the combined effects of international trends and local market conditions. The exchange rate of the Mauritian rupee strengthened vis-à-vis the currencies of major trading partners during the fiscal year 2007-08 mainly on account of strong foreign direct investment inflows and the depreciation of the US dollar on international markets. For the year ended June 2008, the rupee, on a daily average basis, appreciated against the US dollar, Pound sterling, and Japanese Yen by 10.6 per cent, 7.5 per cent and 4.2 per cent, respectively, while against the euro the rupee depreciated by 0.3 per cent. Measured against a basket of currencies, the Mauritian rupee appreciated in fiscal year 2007-08. Both nominal effective exchange rates measures used by the Bank to gauge the behaviour of the domestic currency namely, MERI1, which uses the currency distribution of trade as weights, and MERI2, which uses the currency distribution of trade combined with the currency distribution of tourism receipts as weights, showed a rupee appreciation of 10.9 per cent and 10.6 per cent respectively. Reflecting liquidity conditions in the domestic foreign exchange market and with a view to smoothing excessive volatility in the exchange rate, the Bank of Mauritius intervened on both sides of the foreign exchange market during FY2007-08. Between mid-December 2007 and April 2008, the Bank purchased USD 230.0 million, EUR 46.0 million and GBP1.0 million, while it sold USD45.0 million between May and June 2008.

The current account of the balance of payments worsened to record a higher deficit of nearly Rs22.2 billion in 2007-08 compared with a deficit of Rs17.4 billion in 2006-07, largely on account of a larger deficit in the merchandise account, which rose from Rs38.0 billion in the preceding fiscal year to Rs55.3 billion in 2007-08. The merchandise account deficit was partly offset by the combined surpluses recorded on the services, income and current transfers' accounts. As a percentage of GDP at market prices, the deficit on the current account was 8.8 per cent in 2007-08 compared to 8.0 per cent in 2006-07. On a balance of payments basis, total imports (f.o.b.) increased by 11.1 per cent, from Rs110.8 billion in 2006-07 to Rs123.1 billion in 2007-08, driven mainly by higher import bills for 'Mineral fuels, lubricants, & related products' and 'Food and live animals' on higher international prices. Total exports (f.o.b.) decreased by 6.9 per cent, from Rs72.8 billion in 2006-07 to Rs67.8 billion in 2007-08 partly due to a decline in Freeport activity. The capital and financial account, inclusive of reserve assets, recorded net inflows of Rs12.6 billion in 2007-08 compared to net inflows of Rs13.7 billion in 2006-07.

Net international reserves of the country, which consist of the net foreign assets of the banking system, the foreign assets of the Government and the country's Reserve Position in the International Monetary Fund (IMF), remained virtually flat relative to end-June 2007 at Rs83.9 billion at the end of June 2008. In terms of import cover, the level of net international reserves of the country at the end of June 2008 represented around 7.9 months of imports based on the value of the import (c.i.f.) bill for fiscal year 2007-08 excluding imports of aircraft, compared with 9.0 months of imports at the end of June 2007.

The Bank of Mauritius pursued several initiatives during 2007-08 as part of its on-going commitment to promote a sound banking sector. With regard to Basel II implementation, significant progress was achieved during the year. The Bank has finalised and issued the framework for the standardised approaches of the new capital adequacy regime. In this respect, the Bank has issued guidelines relating to scope of application, eligible capital, standardised approach to credit risk, the recognition and use of External Credit Assessment Institutions, and operational risk. The Pillar 3 requirements have been dovetailed in the Guideline on Public Disclosure of Information. Effective quarter ended March 2008, banks are required to report, on a parallel run basis, their capital adequacy ratio (CAR) under both Basel I and the Basel II frameworks. The objective of the parallel run exercise is to ensure a smooth transition to the new framework.

Amid an increasing complex and globalised financial environment, supervisory bodies worldwide have undertaken to oversee the safety and soundness of financial institutions on a consolidated basis. The Bank of Mauritius has initiated efforts in this direction and signed a Protocole D'Accord with the Financial Services Commission. The Joint Bank of Mauritius/ Financial Services Commission Coordination Committee was launched on 12 July 2007. The main purpose of the Protocole D'Accord is to expand the scope of an existing Memorandum of Understanding (MOU) signed between the two regulatory and supervisory bodies in December 2002. The Protocole D'Accord makes further provision for the parties to agree on the extent of their responsibilities and harmonization of their procedures with respect to financial institutions which are regulated by both supervisors. The Bank continued to provide effective oversight of the banking and non-bank deposit taking sectors. Existing regulations were reviewed and new ones were introduced with a view to enhancing financial institutions' risk-management. With regard to the money-changer business, the Bank invited applications from body corporates desirous of carrying on such businesses in Mauritius and applied new terms and conditions. Further, with a view to promoting Islamic banking in Mauritius, the Banking Act 2004 was amended by the Finance Act 2007 to incorporate Islamic Banking Services. Licensed banks may now offer Islamic Banking through window operations and institutions may be granted an Islamic Banking Licence to conduct Islamic Banking business exclusively. In this connexion the Bank issued the "Guideline for Institutions Conducting Islamic Banking Business".

The International Monetary Fund and the World Bank conducted a Financial Sector Assessment Program (FSAP) of the Bank's compliance with the Anti-Money Laundering and Countering the Financing of Terrorism regime in September/October 2007. In line with the FSAP recommendations and with a view to establishing a good working relationship between supervisors as laid down in the Basel

Committee's Concordat and the Core Principles for Effective Supervision, the Bank entered into a MOU with the Hong Kong Monetary Authority in June 2008. The MOU will ensure collaboration in the exchange of supervisory information to facilitate the performance of the duties of the respective regulatory authorities.

Overall, the performance of the banking sector remained strong during 2007-08. All but one bank realized profits during the year under review. Banks' operating profit before bad and doubtful debts provisioning increased by 16.8 per cent to Rs12.3 billion while profit before tax reached Rs11.1 billion, a 12.5 per cent increase over the preceding year's level. In the year to June 2008, banks' total advances and total deposits grew by 17.0 per cent and 23.4 per cent to Rs356.3 billion and Rs537.1 billion respectively.

As at 30 June 2008, 13 non-bank deposit-taking institutions (NBDTI) were licensed under section 12 (2) of the Banking Act 2004 with total assets amounting to Rs35.8 billion and total deposits of Rs24.0 billion. Total credit facilities extended by NBDTIs amounted to Rs27.1 billion while their holdings of securities, placements and other investments stood at Rs6.6 billion as at end-June 2008. NBDTIs posted an operating profit, before bad and doubtful debts and taxation, of Rs0.7 billion during the year under review, i.e. an increase of 3.0 per cent over last year. The profit before tax went up by by 2.5 per cent to reach Rs0.6 billion in FY2007-08, while the charge for bad and doubtful debts increased slightly from Rs0.077 billion in FY2006-07 to reach Rs0.082 billion in FY2007-08.

The foregoing economic and financial developments during the year 2007-08 are reviewed in greater detail in the following chapters of the report.

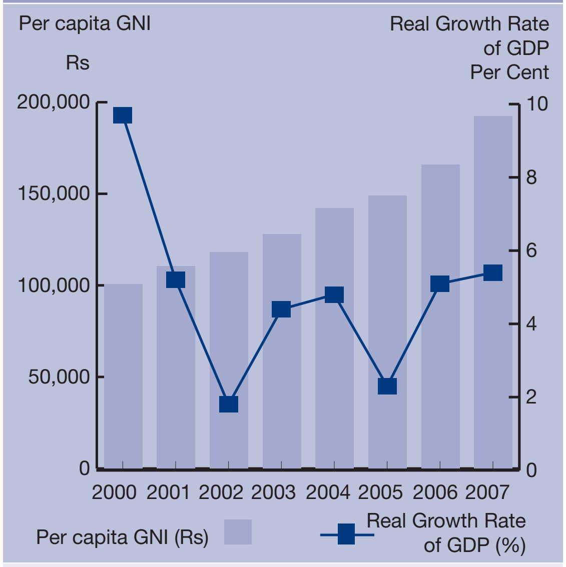
I. NATIONAL INCOME AND PRODUCTION

OUTPUT

Gross Domestic Product (GDP) at basic prices increased by 13.7 per cent in nominal terms, from Rs182,009 million in 2006 to Rs206,943 million in 2007. In real terms, the economy grew at a rate of 5.4 per cent in 2007, up from 5.1 per cent in 2006. Exclusive of sugar, the growth rate of the economy was 6.1 per cent compared to 5.4 per cent in 2006. The textile, construction, hotels and restaurants, financial intermediation and real estate sectors recorded buoyant real growth rates while the agricultural sector contracted by 7.4 per cent in 2007.

GDP at market prices went up by 14.1 per cent, from Rs206,328 million in 2006 to Rs235,492 million in 2007. Net taxes on products amounted to Rs28,549 million compared to Rs24,319 million in 2006. Gross National Income (GNI) at current market prices reached Rs242,515 million, up by 16.6 per cent compared to 2006. Per capita GNI at current market prices increased by 15.9 per cent, from Rs165,972 in 2006 to Rs192,366 in 2007. Per capita GDP at current market prices rose by 13.4 per cent, from Rs164,669 in 2006 to Rs186,796 in 2007.

Chart I.1: Per capita GNI and Growth Rate: 2000 - 2007



Source: Central Statistics Office, Government of Mauritius.

Table I.1: Main National Accounting Aggregates and Ratios: 2005 - 2008

		2005	2006	2007 [1]	2008 [1]
A.	**Aggregates (Rs million)**				
1.	GDP at basic prices	162,171	182,009	206,943	233,653
	Annual Real Growth Rate (Per cent)	+2.3	+5.1	+5.4	+5.3
2.	GDP at market prices	185,348	206,328	235,492	264,854
3.	GNI at market prices	185,109	207,961	242,515	269,752
4.	Per capita GNI at market prices (Rupees)	148,857	165,972	192,366	212,427
5.	Aggregate Consumption Expenditure	154,717	174,846	196,533	231,849
6.	Compensation of Employees	68,867	74,575	83,835	95,927
7.	Gross Domestic Fixed Capital Formation	39,731	50,048	59,170	64,893
8.	Gross Capital Formation	41,758	54,783	63,296	71,881
9.	Gross Domestic Savings	30,631	31,482	38,959	33,005
10.	Resource Balance (9 - 8)	-11,127	-23,301	-24,337	-38,876
11.	Gross National Disposable Income	186,906	210,230	246,397	276,002
B.	**Ratios: As a Percentage of GDP at market prices**				
1.	Gross Domestic Savings	16.5	15.3	16.5	12.5
2.	Aggregate Consumption Expenditure	83.5	84.7	83.5	87.6
3.	Gross Domestic Fixed Capital Formation	21.4	24.3	25.1	24.5
4.	Resource Balance	-6.0	-11.3	-10.3	-14.7
C.	**Ratio: As a Percentage of GDP at basic prices**				
1.	Compensation of Employees	42.5	41.0	40.5	41.1

[1] *Revised estimates*
Source: Central Statistics Office, Government of Mauritius.

Table I.1 shows the main national accounting aggregates and ratios for the years 2005 through 2008. Chart I.1 shows per capita GNI at market prices and real growth rate of GDP for the years 2000 through 2007.

INCOME

Compensation of employees grew by 12.4 per cent, from Rs74,575 million in 2006 to Rs83,835 million in 2007. As a percentage of GDP at basic prices, it stood at 40.5 per cent, down from 41.0 per cent in 2006.

Taxes (net of subsidies) on production and imports rose by 17.6 per cent, from Rs26,061 million in 2006 to Rs30,656 million in 2007. Taxes on products increased by 16.3 per cent to Rs29,369 million.

Gross operating surplus, which is the excess of gross output over the sum of compensation of employees and net taxes on production and imports, went up by 14.5 per cent to Rs121,002 million in 2007.

Net primary income from the rest of the world increased from Rs1,633 million in 2006 to Rs7,023 million in 2007. Net transfer from the rest of the world rose by 71.1 per cent to Rs3,882 million in 2007.

Gross National Disposable Income (GNDI) grew, in nominal terms, by 17.2 per cent, to Rs246,397 million in 2007, compared to a growth of 12.5 per cent in 2006.

Gross National Savings (GNS), which is that part of GNDI that is not spent on consumption, increased by 40.9 per cent, from Rs35,384 million in 2006 to Rs49,864 million in 2007, compared to a growth of 9.9 per cent in 2006. The ratio of GNS to GDP at market prices increased from 17.1 per cent in 2006 to 21.2 per cent in 2007.

EXPENDITURE ON GDP

Final Consumption Expenditure

Aggregate final consumption expenditure of households and General Government went up by 12.4 per cent to Rs196,533 million in 2007. In real terms, it grew by 3.9 per cent in 2007 compared to 5.5 per cent in 2006. Households consumption expenditure grew, in real terms, by 4.5 per cent in 2007 compared to 5.9 per cent in 2006. General Government consumption expenditure recorded a real growth rate of 0.8 per cent in 2007, way below the growth rate of 3.8 per cent in 2006. As a percentage of GDP at market prices, aggregate final consumption expenditure fell from 84.7 per cent in 2006 to 83.5 per cent in 2007. Households final consumption expenditure as a percentage of GDP at market prices decreased slightly from 70.5 per cent in 2006 to 70.4 per cent in 2007 while the ratio of General Government final consumption expenditure to GDP at market prices declined from 14.2 per cent to 13.1 per cent over the same period.

Gross Domestic Fixed Capital Formation (GDFCF)

GDFCF went up by 18.2 per cent to Rs59,170 million in 2007. In real terms, it expanded by 8.6 per cent in 2007 compared to a growth of 19.0 per cent in the previous year. The Resource Balance (defined as Savings minus Investment) narrowed to 10.3 per cent of GDP in 2007 compared to 11.3 per cent in 2006. GDFCF, exclusive of aircraft and marine vessel, grew, in real terms, by 17.0 per cent in 2007 compared to a rise of 5.5 per cent in 2006. The ratio of GDFCF to GDP at market prices increased from 24.3 per cent in 2006 to 25.1 per cent in 2007.

Private sector GDFCF expanded by 35.4 per cent, from Rs34,177 million in 2006 to Rs46,261 million in 2007. In real terms, private sector GDFCF grew by 24.0 per cent in 2007 compared to 15.1 per cent in 2006.

Public sector GDFCF fell by 18.7 per cent, in nominal terms, from Rs15,871 million in 2006 to Rs12,909 million in 2007. In real terms, public sector GDFCF contracted by 24.7 per cent in 2007 against a significant positive growth of 28.3 per cent in 2006. Exclusive of aircraft and marine vessel, public sector investment declined, in real terms, by 7.4 per cent in 2007 compared to a negative growth of 17.5 per cent in the previous year. The share of private sector

GDFCF in total GDFCF increased from 68.3 per cent in 2006 to 78.2 per cent in 2007 while that of the public sector fell from 31.7 per cent to 21.8 per cent in 2007.

Inventories, which include the value of the physical change in inventories of raw materials, work in progress and finished goods held by producers, fell from Rs4,735 million in 2006 to Rs4,126 million in 2007.

Tables I.2 and I.3 show the real growth rates of GDFCF by type of capital goods and by industrial use, respectively, for the years 2005 through 2007. Chart I.2 depicts the movements in the ratios of GDFCF and GNS to GDP at market prices for the years 2000 through 2007. Chart I.3 shows investment by sector in 2007 and Chart I.4 illustrates the growth rates of public and private sector GDFCF for the years 2000 through 2007.

Table I.2: Real Growth Rates of GDFCF by Type of Capital Goods: 2005 - 2007

(Per cent)

	2005	2006	2007[1]
A. Building and Construction Work	**-5.3**	**+6.7**	**+16.9**
Residential Building	-10.5	+10.3	+5.5
Non-residential Building	-12.1	+3.9	+49.2
Other Construction Work	+16.8	+6.3	-17.4
B. Machinery and Equipment	**+3.4**	**+36.9**	**-1.0**
Machinery and Equipment (excluding aircraft and marine vessel)	+4.2	+3.8	+17.2
Passenger Car	-14.1	+4.2	+29.9
Other Transport Equipment	+2.8	+296.5	-38.2
Other Transport Equipment (excluding aircraft and marine vessel)	+10.1	+8.1	+19.1
Other Machinery and Equipment	+7.7	+3.1	+14.6
GDFCF	**-1.9**	**+19.0**	**+8.6**
GDFCF (excluding aircraft and marine vessel)	**-1.6**	**+5.5**	**+17.0**

[1] Revised estimates
Source: Central Statistics Office, Government of Mauritius.

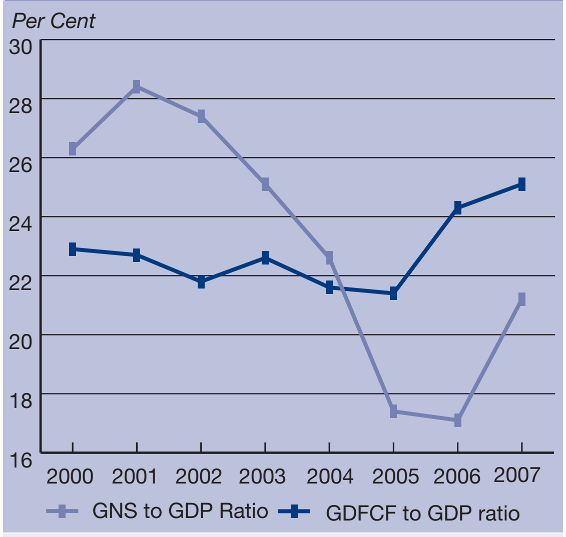
Table I.3: Real Growth Rates of GDFCF by Industrial Use: 2005 - 2007

(Per cent)

	2005	2006	2007[1]
1. Agriculture, Hunting, Forestry and Fishing	+56.9	+16.8	-17.0
2. Mining and Quarrying	-100.0	-	+619.0
3. Manufacturing	-1.8	a-18.2	+63.1
4. Electricity, Gas and Water	+45.8	+11.0	-39.4
5. Construction	-10.6	+27.1	+57.5
6. Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	+3.4	+3.7	+48.2
of which: Wholesale and Retail Trade	*+3.9*	*+4.1*	*+42.7*
7. Hotels and Restaurants	-24.5	+46.8	+39.2
8. Transport, Storage and Communications	+5.6	+123.2	-23.2
9. Financial Intermediation	+32.8	+17.5	-19.9
10. Real Estate, Renting and Business Activities	-11.5	+4.1	+16.5
Owner Occupied Dwellings	*-10.5*	*+10.3*	*+5.5*
Other	*-15.5*	*-21.0*	*+79.6*
11. Public Administration and Defence; Compulsory Social Security	-26.0	-1.0	-21.6
12. Education	+6.1	-29.1	+1.4
13. Health and Social Work	-25.9	+2.8	+20.9
14. Other Services	+25.2	-8.3	-9.2
Gross Domestic Fixed Capital Formation	**-1.9**	**+19.0**	**+8.6**

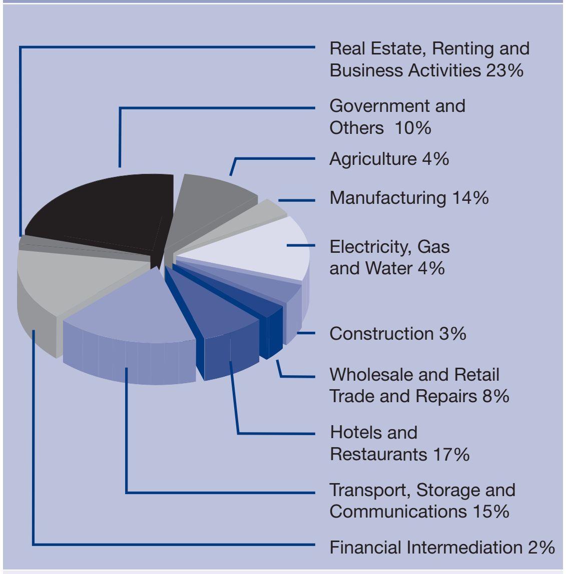
[1] Revised estimates
Source: Central Statistics Office, Government of Mauritius.

Chart I.2: Ratios of GDFCF and GNS to GDP at Market Prices: 2000 - 2007



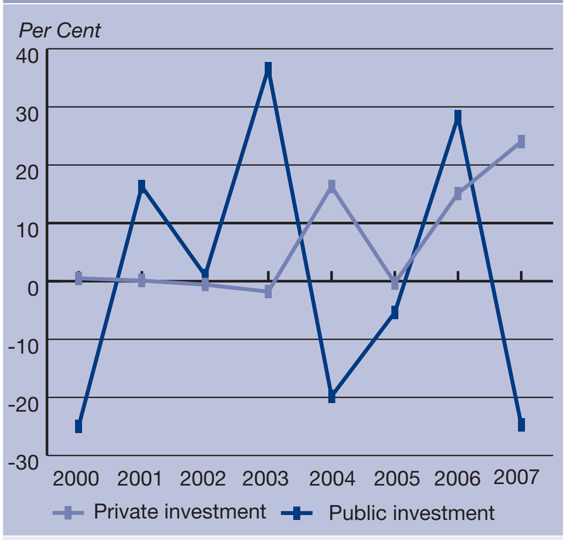
Source: Central Statistics Office, Government of Mauritius.

Chart I.3: Investment by Sector in 2007



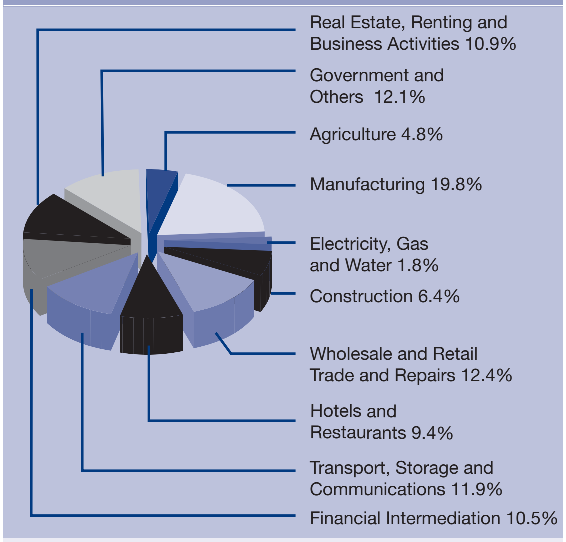
Source: Central Statistics Office, Government of Mauritius.

Chart I.4: Growth Rates of Public and Private Investment: 2000 - 2007



Source: Central Statistics Office, Government of Mauritius.

Chart I.5: Sectoral Distribution of GDP at Basic Prices in 2007



Source: Central Statistics Office, Government of Mauritius.

Table I.4: Main Aggregates of the Agricultural Sector: 2005 - 2007

	2005	2006	2007 [1]
1. Value Added at current basic prices (Rs million)	9,790	10,130	9,834
of which: Sugarcane	*5,212*	*5,137*	*4,620*
2. Annual Real Growth Rate (Per cent)	-5.4	+0.6	-7.4
3. Share of Agriculture in GDP at basic prices (Per cent)	6.0	5.5	4.8
4. Investment at current prices (Rs million)	2,225	2,764	2,508
5. Share of Investment in Agriculture in total GDFCF (Per cent)	5.6	5.5	4.2
6. Sugar Exports (Rs million)	10,536	11,198	9,578
7. Agricultural Exports other than Sugar (Rs million)	273	254	165
8. Share of Agricultural Exports in total Domestic Exports (Per cent)	25.7	24.0	19.3

[1] *Revised estimates*
Source: Central Statistics Office, Government of Mauritius.

AGRICULTURE

The Agricultural sector registered a negative growth of 7.4 per cent in 2007 after expanding by 0.6 per cent in 2006. This was the combined result of a negative growth of 1.1 per cent in the non-sugar agricultural sector, including activities related to hunting, forestry and fishing and a contraction of 13.6 per cent in the sugarcane sector, which deteriorated compared to the contraction of 2.9 per cent that it underwent in the previous year.

Table I.4 shows the main aggregates of the agricultural sector for the years 2005 through 2007. Chart I.5 shows the sectoral distribution of GDP at basic prices in 2007.

Sugar

Sugar production, affected by unfavourable climatic conditions, contracted by 13.6 per cent, from 504,857 tonnes in 2006 to 435,972 tonnes in 2007. Value added of sugarcane accounted for nearly 47 per cent of the total value added of the agricultural sector.

Export proceeds of cane sugar fell from Rs11,198 million in 2006 to Rs9,578 million in 2007. The share of sugar exports in total domestic exports fell from 23.5 per cent in 2006 to 19.0 per cent in 2007. Export receipts from cane molasses decreased from Rs153 million in 2006 to Rs54 million in 2007.

Non-Sugar Agricultural Sector

The non-sugar agricultural sector, including activities related to hunting, forestry and fishing, contracted by 1.1 per cent in 2007 after an expansion of 4.5 per cent in 2006. Value added by this sector went up, in nominal terms, from Rs4,993 million in 2006 to Rs5,214 million in 2007, representing a growth of 4.4 per cent and its share in the agricultural sector increased from 49.3 per cent to 53.0 per cent over the same period.

MANUFACTURING

The Manufacturing sector, which comprises sugar milling, food (excluding sugar), textile, and other manufacturing, grew, in real terms, by 2.2 per cent in 2007 compared to a growth of 4.0 per cent in 2006. Value added by the manufacturing sector represented 19.8 per cent of total value added in the economy in 2007. Food processing industries expanded by 4.0 per cent in 2007 compared to 9.6 per cent in 2006.

The textile sub-sector recorded a growth of 8.5 per cent in 2007 compared to a growth of 2.9 per cent in 2006. Export oriented enterprises (EOE), comprising enterprises formerly registered with an export certificate and those export manufacturing enterprises holding a registration certificate issued by the Board of Investment, registered a growth of 8.0 per cent in 2007 compared to a growth of 4.6 per cent in 2006. The sugar milling sub-sector contracted by 13.6 per cent in 2007 compared to a contraction of 2.9 per cent the previous year. The other manufacturing sub-sector registered a negative growth of 3.1 per cent in 2007 in contrast to a positive growth of 1.8 per cent in 2006.

Table I.5 shows the main aggregates of the manufacturing sector for the years 2005 through 2007.

EOE exports went up by 12.6 per cent to Rs37,840 million in 2007, compared to a growth of 16.1 per cent in 2006. EOE imports

Table I.5: Main Aggregates of the Manufacturing Sector: 2005 - 2007

	2005	2006	2007 [1]
1. Value Added at current basic prices (Rs million)	32,187	36,356	41,075
2. Annual Real Growth Rate (Per cent)	-5.5	+4.0	+2.2
3. Share of Value Added in GDP at basic prices (Per cent)	19.8	20.1	19.8
4. Investment at current prices (Rs million)	5,548	4,819	8,375
5. Share of Investment in total GDFCF (Per cent)	14.0	9.6	14.2

[1] Revised estimates
Source: Central Statistics Office, Government of Mauritius.

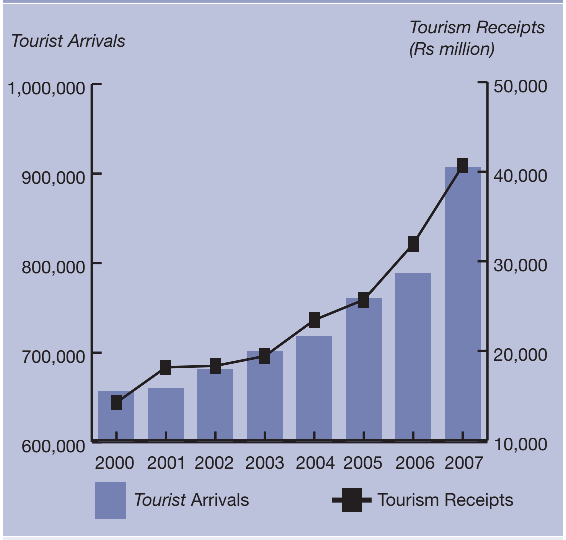
increased by 10.6 per cent to Rs21,036 million in 2007, way below the expansion of 22.6 per cent in 2006. Net EOE exports rose by 15.2 per cent to Rs16,804 million in 2007.

EOE exports in 2007 were mainly directed to the United Kingdom, France and United States, with shares of 35.2 per cent, 17.7 per cent and 11.1 per cent, respectively, in total EOE exports. EOE exports to African and European countries increased by 31.5 per cent and 13.7 per cent, respectively while EOE exports to Asian countries contracted by 1.2 per cent. The major countries of origin of EOE imports remained China, France, India and Spain, with shares of 11.8 per cent, 11.5 per cent, 11.3 per cent and 9.6 per cent, respectively. EOE imports from European, African and Asian countries went up by 15.9 per cent, 13.2 per cent and 6.5 per cent, respectively.

TOURISM

The Tourism sector rebounded by 14.0 per cent in 2007 after a low growth of 3.5 per cent recorded in 2006 in the wake of the spread of the "Chikungunya" disease. The open air access policy of the government and aggressive marketing campaigns abroad to promote Mauritius as a tourist destination have also contributed to the strong growth rate of the sector. Gross tourism receipts increased by 27.4 per cent, from Rs31,942 million in 2006 to Rs40,687 million in 2007, compared to a growth of 24.3 per cent in 2006. Tourist arrivals went up from 788,276 in 2006 to 906,971 in 2007 while total tourist nights rose from 7,761,000 to 8,987,000. In 2007, 90.3 per cent of foreign visitors came to Mauritius on holidays while 3.3 per cent were business travellers.

Chart I.6: Tourist Arrivals and Tourism Receipts: 2000 - 2007



Source: Central Statistics Office, Government of Mauritius.

Chart I.6 shows tourist arrivals and tourism receipts for the years 2000 through 2007.

Tourist arrivals from Europe went up by 16.7 per cent to 595,653 in 2007. Tourists from European countries accounted for nearly two thirds of total tourist arrivals in 2007. Tourist arrivals from France, United Kingdom, Italy and Germany rose by 31.7 per cent, 4.9 per cent, 0.1 per cent and 13.8 per cent, respectively. The number of tourists from the African region increased by 11.3 per cent, from 189,458 in 2006 to 210,952 in 2007. Tourist arrivals from Reunion Island increased by 7.5 per cent while those from the Republic of South Africa rose by 15.4 per cent. Tourist arrivals from Asia, America and Australia went up by 13.9 per cent, 7.0 per cent and 17.9 per cent, respectively.

At the end of December 2007, there were 97 hotels in operation with 10,857 rooms and 21,788 bed places compared to 98 hotels with 10,666 rooms and 21,403 bed places at the end of December 2006. The average room occupancy rate for all hotels went up from 66 per cent in 2006 to 76 per cent in 2007 while that of "large" hotels rose from 69 per cent to 78 per cent over the same period.

Direct employment in the tourist industry increased from 25,798 at the end of March 2006 to 26,322 at the end of March 2007. This represented a growth of 2.0 per cent, up from 1.7 per cent in 2006.

FINANCIAL INTERMEDIATION

The 'Financial Intermediation' sector, which includes insurance, banking services and other financial intermediation activities, grew by 7.5 per cent in 2007, up from 7.0 per cent in 2006. This expansion was mainly driven by banking activities, which grew by 7.9 per cent, up from 7.1 per cent in 2006 and by other financial intermediation activities, which grew by 11.2 per cent compared to 11.0 per cent in the previous year. As for the 'Insurance' sub-sector, it registered a growth of 5.1 per cent, slightly up from the growth rate of 5.0 per cent in 2006.

REAL ESTATE, RENTING AND BUSINESS ACTIVITIES

The 'Real Estate, Renting and Business Activities' sector, which includes owner occupied dwellings, renting of machinery and operator, computer activities and other business activities, recorded a higher growth of 7.6 per cent in 2007 compared to 6.5 per cent in 2006. The 'Owner occupied dwellings' sub-sector expanded by 4.9 per cent in 2007, up from 4.4 per cent in the previous year, while activities other than 'Owner occupied dwellings' grew by 10.0 per cent compared to a growth of 8.5 per cent in 2006.

OTHER SECTORS

The 'Electricity, Gas and Water' sector grew, in real terms, by 3.4 per cent in 2007, lower than the 4.0 per cent growth in 2006. The 'Construction' sector grew substantially by 15.2 per cent in 2007, after a growth of 5.2 per cent in the previous year, mainly as a result of the construction and renovation of hotels and the implementation of Integrated Resort Scheme projects. Growth in the 'Transport, Storage and Communications' sector stood at 7.7 per cent in 2007, higher than the 7.4 per cent expansion in 2006. The 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods' sector expanded by 4.5 per cent in 2007, down from 5.5 per cent in 2006, due to lower growth in final consumption resulting from price increases in consumer goods, and in trade activities of the Freeport. The 'Public Administration and Defence; Compulsory Social Security' sector grew by 0.5 per cent in 2007 compared to 4.0 per cent in the previous year. The 'Education' sector grew by 2.5 per cent in 2007, down from 4.1 per cent in 2006. Value added in the 'Health and Social Work' sector grew by 4.6 per cent in 2007 compared to 7.9 per cent in 2006, while 'Other Services' expanded by 8.0 per cent in 2007 compared to 6.5 per cent in the previous year.

II. LABOUR MARKET AND PRICE DEVELOPMENTS

The improved economic outlook together with Government's efforts to enhance the job matching process had a positive impact on the labour market. Job fairs organised in various regions were instrumental in reducing the asymmetry of information in the labour market, thus contributing to a steady decline in the unemployment rate. Notwithstanding the decline in the unemployment rate, wage pressures have remained subdued in recent years. However, pay rises for the public sector as from July 2008 following the PRB award are expected to trigger a demonstration effect in the private sector which could potentially lead to upward pressures on labour cost and inflation, hence the need to put more emphasis on productivity gains.

WAGE DEVELOPMENTS

Average Monthly Earnings

According to the Survey of Employment and Earnings in "large" establishments carried out by the Central Statistics Office (CSO), the average monthly earnings for all industrial groups increased from Rs13,397 to Rs14,428, or 7.7 per cent, between March 2007 and March 2008 compared to an increase of 6.1 per cent between March 2006 and March 2007. Adjusted for the twelve-month running inflation rate, the average monthly earnings

Table II.1: Average Monthly Earnings[1] in Large Establishments

Industrial Group	Mar-06 (Rs)	Mar-07[2] (Rs)	Mar-08[3] (Rs)	% Nominal change between Mar-07 and Mar-08	%Change adjusted for increase in price level
1. Agriculture, Forestry and Fishing	10,019	10,409	10,958	5.3	-3.4
of which: Sugarcane	*9,202*	*9,453*	*9,926*	*5.0*	*-3.7*
2. Mining and Quarrying	5,895	6,340	6,735	6.2	-2.5
3. Manufacturing	8,214	8,622	8,951	3.8	-4.8
of which: Sugar	*12,468*	*12,897*	*12,976*	*0.6*	*-7.7*
Food	*8,538*	*8,930*	*9,018*	*1.0*	*-7.4*
Textiles	*6,802*	*7,203*	*7,520*	*4.4*	*-4.2*
Other	*10,341*	*10,722*	*11,103*	*3.6*	*-5.0*
4. Electricity, Gas and Water	22,016	24,125	24,449	1.3	-7.0
5. Construction	13,047	14,143	15,457	9.3	0.3
6. Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	13,547	14,387	15,782	9.7	0.6
of which: Wholesale and Retail Trade	*13,500*	*14,270*	*15,819*	*10.9*	*1.7*
7. Hotels and Restaurants	10,561	11,325	11,548	2.0	-6.5
8. Transport, Storage and Communications	16,664	17,472	19,824	13.5	4.1
9. Financial Intermediation	22,692	24,504	27,413	11.9	2.6
of which: Insurance	*19,536*	*21,212*	*23,306*	*9.9*	*0.8*
10. Real Estate, Renting and Business Activities	13,447	13,880	15,231	9.7	0.7
11. Public Administration and Defence; Compulsory Social Security	14,535	15,497	16,867	8.8	-0.1
12. Education	16,216	16,682	17,287	3.6	-4.9
13. Health and Social Work	17,306	18,866	19,571	3.7	-4.8
14. Other Services	12,298	12,513	13,173	5.3	-3.4
Total	**12,632**	**13,397**	**14,428**	**7.7**	**-1.2**

[1] Earnings of daily, hourly and piece rate workers have been converted to a monthly basis. [2] Revised. [3] Provisional.
Source: Central Statistics Office, Government of Mauritius.

for all industrial groups contracted by 1.2 per cent between March 2007 and March 2008 compared to a decline of 3.3 per cent between March 2006 and March 2007.

An analysis by industrial group shows that in March 2008, 'Financial Intermediation' recorded the highest average monthly earnings (Rs27,413) while 'Mining and Quarrying' registered the lowest average monthly earnings (Rs6,735). The highest increase in average monthly earnings occurred in 'Transport, Storage and Communications' (13.5 per cent) followed by 'Financial Intermediation' (11.9 per cent), 'Real Estate, Renting and Business Activities' (9.7 per cent), 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods' (9.7 per cent) and 'Construction' (9.3 per cent) between March 2007 and March 2008. The remaining sectors recorded increases in average monthly earnings in the range of 0.6 per cent to 8.8 per cent.

Table II.1 shows the average monthly earnings in large establishments by industrial group over the period March 2006 through March 2008.

Compensation of Employees

Compensation of employees went up, in nominal terms, by 12.4 per cent, from Rs74,575 million in 2006 to Rs83,835 million in 2007 compared to an increase of 8.3 per cent in 2006. Compensation of employees as a percentage of GDP at basic prices fell from 41.0 per cent in 2006 to 40.5 per cent in 2007. Compensation of employees in the General Government sector, which accounts for around 25 per cent of total compensation, grew, in nominal terms, by 3.3 per cent in 2007 compared to 5.6 per cent in 2006, while for the rest of the economy, it increased by 15.5 per cent in 2007 compared to 9.2 per cent in 2006.

Cost of Living Compensation

During the fiscal year 2007-08, a cost of living compensation of 8.7 per cent was awarded to employees receiving a monthly salary of up to Rs3,000 while a compensation of Rs300 was awarded to those earning between Rs3,001 and Rs6,500. Employees earning between Rs6,501 and Rs8,000 received Rs350 as compensation while Rs400 was given to those drawing a monthly salary of above Rs8,000. Some companies that are profitable

Table II.2: Quarterly Wage Rate Indices by Industry Group, Q1 2007 - Q2 2008

Industry group	Weight	2007				2008	
		Q1	Q2	Q3	Q4	Q1	Q2
Agriculture, Hunting, Forestry and Fishing	61	95.9	98.5	106.2	107.5	105.6	106.7
Manufacturing, Mining and Quarrying	170	102.2	103.6	107.6	109.9	110.9	113.7
Electricity, Gas and Water	20	104.5	105.0	106.0	106.4	106.9	107.0
Construction	37	101.2	102.8	108.3	109.1	111.5	113.4
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	69	102.9	103.2	108.8	110.2	115.6	116.5
Hotels and Restaurants	64	104.4	104.6	106.6	114.7	116.4	116.2
Transport, Storage and Communications	91	100.5	102.9	106.3	109.0	115.9	114.1
Financial Intermediation	61	100.5	103.4	108.9	110.9	109.9	112.6
Real Estate, Renting and Business Activities	54	101.8	102.7	107.3	108.6	110.0	111.3
Public Administration and Defence; Compulsory Social Security	170	100.1	100.2	104.1	104.4	103.8	103.3
Education	124	101.8	101.9	103.7	103.9	106.2	104.6
Health and Social Work	59	98.2	99.5	103.6	103.4	102.7	102.9
Other Community, Social and Personal Services	20	102.6	101.2	102.8	106.0	107.3	109.0
All sectors	1,000	101.1	102.1	106.1	107.8	109.2	109.7
of which General Government [1]	333	99.8	100.2	103.7	103.9	103.7	103.2

[1] ministries, government departments and agencies operating under them; municipalities; district councils and Rodrigues Regional Assembly *Source: Central Statistics Office, Government of Mauritius.*

and operating in the financial and hotel sectors have awarded their employees compensation above that recommended by the National Pay Council and approved by the Government.

Wage Rate Index

The wage rate index measures changes in the price of labour, that is, changes in the average rates actually paid by employers to their employees for work during normal working hours. As from the first quarter of 2007, the wage rate index is calculated on the basis of the occupational structure of the working population in September 2006, the new base period.

A general upward movement was noted in the quarterly wage rate index across the four quarters in 2007. The average wage rate index for 2007 was 104.3. It went up by 4.3 per cent from September 2006 on account of an increase in wage rates across all industry groups. The highest increase in wage rate was registered in 'Hotels and Restaurants' (7.6 per cent) followed by 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods' (6.3 per cent). The lowest increase was registered in 'Health and Social Work' (1.2 per cent). 'Manufacturing, Mining and Quarrying' and 'Public Administration and Defence; Compulsory Social Security', the two most important industry groups in terms of weight, registered increases of 5.8 per cent and 2.2 per cent in wage rates respectively. The main contributor to the increase of 4.3 points in the index for 2007 was 'Manufacturing, Mining and Quarrying' (1.0 point). 'Hotels and Restaurants' contributed 0.5 point.

Table II.2 gives details on the quarterly wage rate indices by industry group.

The wage rate index rose by 7.4 per cent in the second quarter of 2008 compared to the second quarter of 2007. A comparison of wage rate increases by industrial groups over the same period shows that the largest rise of 12.9 per cent was registered in 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods' followed by 'Hotels and Restaurants' (11.1 per cent) and 'Transport, Storage and Communications' (10.9 per cent) while the lowest increase of 1.9 per cent was registered in 'Electricity, Gas and Water'.

LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT

Labour Force

The population of the Republic of Mauritius, including Agalega and St Brandon, was estimated at 1,268,835 as at mid year 2008, of whom 626,741 were males and 642,094 were females, that is, a sex ratio of 97.6 males to 100 females. The population growth rate was 0.6 per cent in mid year 2008, same as in mid year 2007.

According to the "Continuous Multi-Purpose Household Survey" (CMPHS), the total labour force, inclusive of foreign workers, grew from 565,100 in 2006 to 570,500 in 2007, or 1.0 per cent, down from 1.1 per cent in 2006. The number of foreign workers increased from 16,700 in 2006 to 21,600 in 2007. The male labour force grew by 1.7 per cent while the female labour force contracted by 0.3 per cent in 2007 compared to growth of 0.3 per cent and 2.5 per cent, respectively, in 2006.

Employment

The total number of persons in employment, inclusive of foreign workers, increased by 1.6 per cent to 523,700 in 2007, the growth rate

Table II.3: Labour Market Indicators

('000)

	2000	2001	2002	2003	2004	2005	2006	2007
Total Labour force	517.6	526.8	530.0	539.1	548.8	559.1	565.1	570.5
Employment	484.9	492.1	493.2	499.0	504.2	507.2	515.3	523.7
Unemployment	32.7	34.7	36.8	40.1	44.6	51.9	49.8	46.8
Unemployment rate (%)	6.5	6.8	7.2	7.7	8.4	9.6	9.1	8.5

Note: Data are based on the CMPHS. As from 2007, estimates refer to population aged 16 years and over and include foreign workers.
Source: Central Statistics Office, Government of Mauritius.

remaining unchanged from that of 2006. Male employment grew by 1.9 per cent to reach 347,100 while female employment grew by 1.0 per cent to stand at 176,600 in 2007.

Table II.3 shows labour market indicators for the years 2000 through 2007.

An analysis of employment by sector of economic activity in 2007 shows that with around 123,000 workers, the 'Manufacturing' sector had the largest workforce, which represented 23.4 per cent of total employment compared to 23.5 per cent in 2006. 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods' was the second largest employer with 78,400 workers, or 15.0 per cent of total employment, compared to 15.3 per cent in 2006. Each of the remaining sectors employed between 200 and 49,700 workers.

Table II.4 shows employment by industrial group for 2006 and 2007.

Employment in the Export Oriented Enterprises (EOE)

The Export Oriented Enterprises (EOE) sector went through a period of restructuring and consolidation in view of the loss of the preferential market access for its exports as from January 2005. As at June 2008, the number of enterprises in the EOE was 407 compared to 416 as at June 2007. Employment in the EOE dropped by 2,602 from 67,250 at the end of June 2007 to 64,648 at the end of June 2008. Male employment increased by 602 while female employment went down by 3,204 between June 2007 and June 2008. Expatriate employment went up by 944 during the same period. In the 'Wearing Apparel' group, employment decreased by 3,488 from 49,982 to 46,494. Within the group, employment fell by 995 in 'Pullovers' and by 2,493 in 'Other Garments'.

Unemployment

The rate of unemployment declined from 9.1 per cent in 2006 to 8.5 per cent in 2007.

Table II.4: Employment by Industrial Group *(Thousands)*

Industrial Group	2006 [1]	2007 [1]
1. Agriculture, Forestry and Fishing	47.9	47.3
of which: Sugarcane	*18.2*	*17.8*
Non-Sugar cane	*29.7*	*29.5*
2. Mining and Quarrying	0.3	0.2
3. Manufacturing	120.9	122.5
of which: Sugar	*2.0*	*2.0*
Food	*11.8*	*11.9*
Textiles	*64.2*	*65.6*
Other	*42.9*	*43.0*
4. Electricity, Gas and Water	3.0	3.0
5. Construction	48.4	49.7
6. Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	78.8	78.4
7. Hotels and Restaurants	31.6	32.1
8. Transport, Storage and Communications	36.9	37.4
9. Financial Intermediation	9.4	10.6
10. Real Estate, Renting and Business Activities	21.1	24.7
11. Public Administration and Defence; Compulsory Social Security	39.6	39.1
12. Education	28.4	28.8
13. Health and Social Work	15.0	15.6
14. Other Services	34.0	34.3
All Sectors	**515.3**	**523.7**

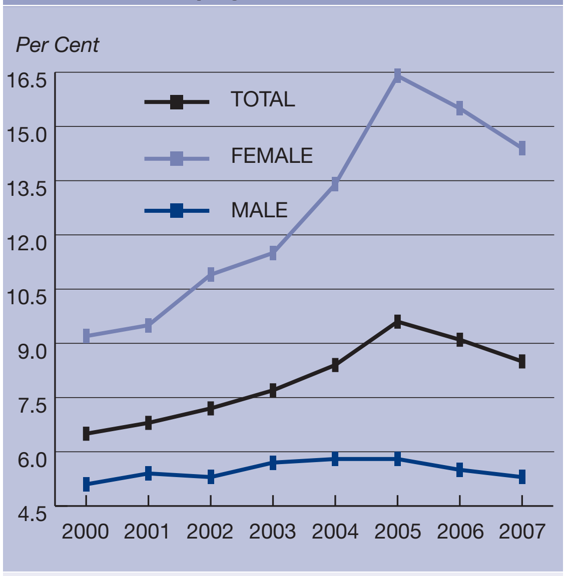
[1]*Revised* *Source: Central Statistics Office, Government of Mauritius.*

The number of unemployed persons went down from 49,800 (19,200 males and 30,600 females) in 2006 to 46,800 (18,600 males and 28,200 females) in 2007. Male unemployment declined from 5.5 per cent in 2006 to 5.3 per cent in 2007 while female unemployment went down from 15.5 per cent to 14.4 per cent over the same period. The seasonally adjusted unemployment rate declined steadily from 8.5 per cent in the third quarter of 2007 to 6.8 per cent in the second quarter of 2008.

In the second quarter of 2008, around 41.0 per cent of the unemployed were in the age bracket of 25 to 39 years while 25.7 per cent were in the age bracket of 20 to 24 years. The mean age of the unemployed was 31 years for males as well as for females. Around 21.0 per cent of the unemployed had not reached the Certificate of Primary Education (CPE) and a further 45.0 per cent did not possess the Cambridge School Certificate (SC). The proportion with SC as highest educational attainment was 20.0 per cent and that with Higher School Certificate (HSC) roughly 11.0 per cent. The number of unemployed having studied up to the tertiary level represented about 3.0 per cent. Regarding the duration of unemployment, 71.0 per cent of the unemployed had been looking for a job for up to a year and 29.0 per cent for more than a year.

Chart II.1 shows the unemployment rate from 2000 to 2007.

Chart II.1: Unemployment Rate



Source: Central Statistics Office, Government of Mauritius.

UNIT LABOUR COST AND PRODUCTIVITY

During the period 1997 to 2007, unit labour cost maintained its increasing trend, rising by an average annual rate of 4.5 per cent as the average compensation growth rate (8.2 per cent) continued to outweigh average growth in labour productivity (3.5 per cent).

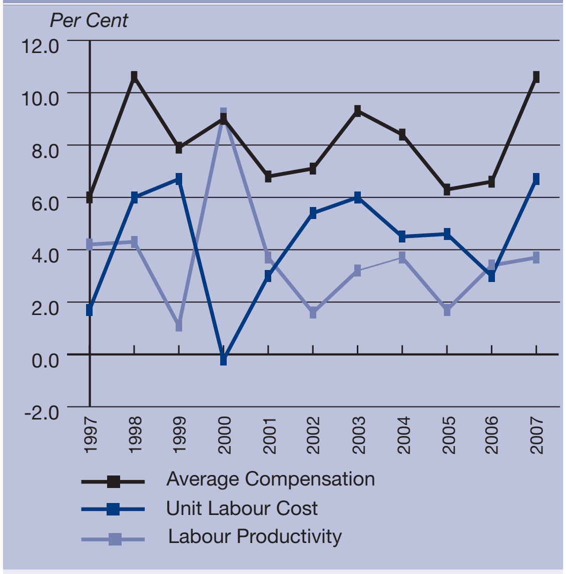
Unit labour cost, defined as the remuneration of labour to produce one unit of output, grew by 6.7 per cent in 2007 compared to 3.0 per cent in 2006. Average compensation in the economy grew by 10.6 per cent in 2007 compared to 6.6 per cent in 2006. In the manufacturing sector, unit labour cost increased by 11.2 per cent in 2007 as against a decline of 0.7 per cent in 2006. Over the period 1997-2007, unit labour cost in the manufacturing sector grew at an average annual rate of 5.5 per cent, driven by higher growth in average compensation (8.9 per cent) relative to that of labour productivity (3.3 per cent). In US dollar terms, unit labour cost for the total economy rose by 5.9 per cent in 2007 in contrast to a decline of 3.3 per cent in 2006. In the manufacturing sector, unit labour cost, in dollar terms, rose by 10.4 per cent in 2007 as against a fall of 6.8 per cent in 2006.

In 2007, labour productivity for the whole economy, defined as the ratio of real output to labour input, grew by 3.7 per cent compared to an increase of 3.4 per cent in 2006. For the manufacturing sector, labour productivity increased by only 0.8 per cent in 2007 compared to an expansion of 3.3 per cent in 2006, while in the EOE, it rose by 6.2 per cent in 2007 compared to 5.4 per cent in 2006. Labour productivity in the textile sub-sector of the EOE rose by 7.6 per cent in 2007 compared to 1.4 per cent in 2006 while in the non-textile sub-sector of the EOE, it increased by 1.3 per cent in 2007 compared to 22.4 per cent in 2006.

Over the period 1997-2007, for the total economy, multifactor productivity grew by an average of 0.2 per cent annually while capital productivity contracted by an average annual rate of 0.7 per cent. In 2007, capital productivity declined by 0.4 per cent compared to a contraction of 0.5 per cent in 2006 while multifactor productivity rose by 0.1 per cent in 2007 as against a contraction of 0.6 per cent in 2006.

Chart II.2 shows the growth rates of average compensation, unit labour cost and labour productivity for the total economy for the years 1997 through 2007.

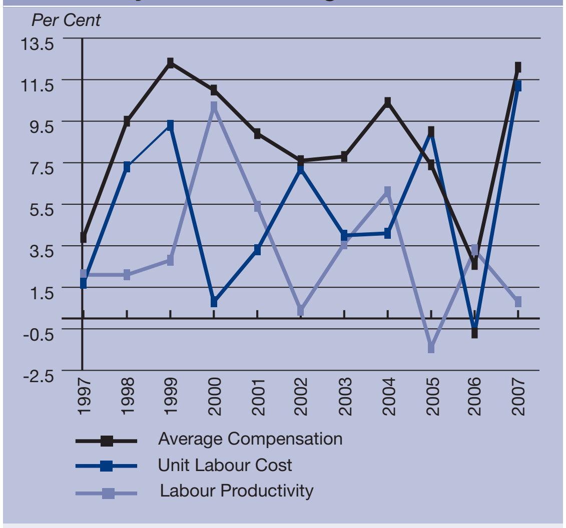
Chart II.2: Growth Rates of Average Compensation, Unit Labour Cost and Labour Productivity - Total Economy



Source: Central Statistics Office, Government of Mauritius.

Chart II.3 shows the growth rates of average compensation, unit labour cost and labour productivity for the manufacturing sector for the years 1997 through 2007.

Chart II.3: Growth Rates of Average Compensation, Unit Labour Cost and Labour Productivity - Manufacturing Sector



Source: Central Statistics Office, Government of Mauritius.

PRICES

Inflation, which is measured by the percentage change in the yearly average Consumer Price Index (CPI) in Mauritius, eased from 10.7 per cent in 2006-07 to 8.8 per cent in 2007-08. The rate of inflation still remained high, with its evolution influenced mainly by developments in food and energy prices. The continuing surge in international oil and non-oil commodity prices, in particular, high international dairy and cereal prices, coupled with soaring freight rates and record world fuel prices have resulted in substantial increases in the domestic prices of cereal-based food and dairy products. Nevertheless, while global commodity prices, including food and oil, have been increasing, the sustained firmness of the rupee vis-à-vis major currencies, the pre-emptive tightening of monetary policy stance of the Bank of Mauritius and the favourable base effects of the CPI have helped reduce the impact on domestic prices, thus contributing to a decline in inflation to 8.8 per cent at the close of fiscal year 2008.

Oil prices on the international market maintained a rising trend during fiscal year 2007-08 and even reached the psychological barrier of US$100 per barrel in February 2008. The average price per barrel of NYMEX WTI (West Texas Intermediate benchmark crude oil), which dropped slightly by 1.4 per cent to US$63.5 in 2006-07, rose significantly by 52.8 per cent to US$97.0 in 2007-08. The average price per barrel of IPE Brent futures also rose appreciably by 48.1 per cent to US$95.7 in 2007-08 compared to a marginal increase of 2.2 per cent for 2006-07.

Headline inflation in major advanced economies firmed up during fiscal year 2007-08, mainly reflecting the hardening of food and fuel prices. Amongst major economies, headline inflation in 2007-08 was 5.0 per cent in the US, 3.8 per cent in the UK and 4.0 per cent in the euro area as compared with 2.7 per cent, 2.4 per cent and 1.9 per cent, respectively, in 2006-07.

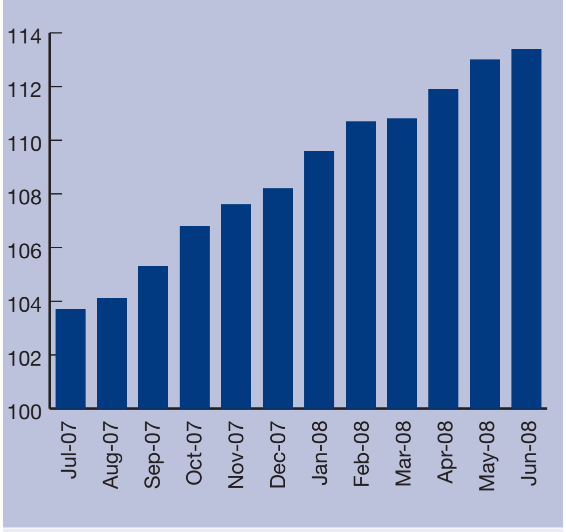
Following the 2006-07 Household Budget Survey (HBS), which is an exercise undertaken every five years to reflect the changing pattern of consumption, the composition of the basket of goods and services used to compute the consumer price index was altered and a new index with base year 2006-07 was computed as from July 2007. Thus, the CPI in Mauritius increased by 9.7 points or 9.4 per cent, from 103.7 in July 2007 to 113.4 in June 2008. With the exception of “Communication”, all the divisions of the CPI basket of goods and services recorded increases during the period under review. The most significant rise of 17.2 points (or 16.1 per cent) was recorded in “Food and non alcoholic beverages”, mainly as a result of higher prices of government imported flour, milk and milk preparations, traders, rice, fresh vegetables and other basic food items. “Restaurants and Hotels” recorded the second largest increase of 14.5 points (or 14.0 per cent). The third largest rise was noted in “Housing, Water, Electricity, Gas and Other Fuels”, which went up by 8.8 points (or 8.7 per cent). “Transport” recorded a hike of 7.7 points or 7.5 per cent while the remaining seven divisions registered increases in their sub-indices, ranging from 0.9 to 7.6 points, or 0.9 to 7.4 per cent. Box 1 outlines the key issues pertaining to the 2006-07 Household Budget Survey carried out between July 2006 and June 2007.

Though headline inflation adopted a declining trend to reach 8.8 per cent at the close of fiscal year 2007-08, inflationary pressures remained well anchored on the economy mainly on account of the pass through effects of mounting food and energy prices on international markets. The global food prices which were particularly high in 2006, 2007 and 2008 coupled with soaring freight rates have impacted on the domestic prices of the main food products and services associated with them and have generated pressures on inflation in the domestic economy given the weight of food in the CPI basket. Effective 19 January 2008, the price of flour rose by 30 per cent and this has had spillover effects on the price of consumables that use flour as intermediate input such as bread, which registered a hike of around 23 per cent. The price of flour would have risen by more than 30 per cent had the government not subsidize partially the price of flour on the local market. Concurrently, the surge in commodity oil prices on the world market has also led to notable increases of petroleum products in the domestic market under the Automatic Price Mechanism of the State Trading Corporation during fiscal year 2007-08. The prices of mogas went up by 20 per cent to Rs39.00 a litre in July 2007 and further by 6.41 per cent to Rs41.50 a litre in October 2007 while the price of diesel oil rose by 4.76 per cent, 6.23 per cent and 12.84 per cent to Rs29.70 a litre, Rs31.55 a litre and Rs35.60 a litre in July 2007, October 2007 and January 2008, respectively. This has been compounded by hikes in electricity charges in September 2007 and April 2008, thereby weighing heavily on the consumer price index.

It is noted that with effect from 1 October 2007, the price of LPG on the local market would no longer be determined under the APM. Henceforth, the prices would be fixed by Government under the Consumer Protection (Control of Price of Taxable and Non Taxable Goods) Regulations 2007.

Table II.5 shows the quarterly percentage change in the sub-indices of the 12 divisions in the CPI basket of goods and services. Chart II.4 shows the monthly evolution of CPI during fiscal year 2007-08. Charts II.5 and II.6 depict the monthly evolution of the twelve divisions of the CPI basket of goods and services during fiscal year 2007-08 and Chart II.7 shows the inflation rate of Mauritius and some of our major trading partner countries. Chart II.8 shows the daily movement of oil prices during fiscal year 2007-08.

Chart II.4: Monthly Consumer Price Index (Base year July 2006-June 2007=100)



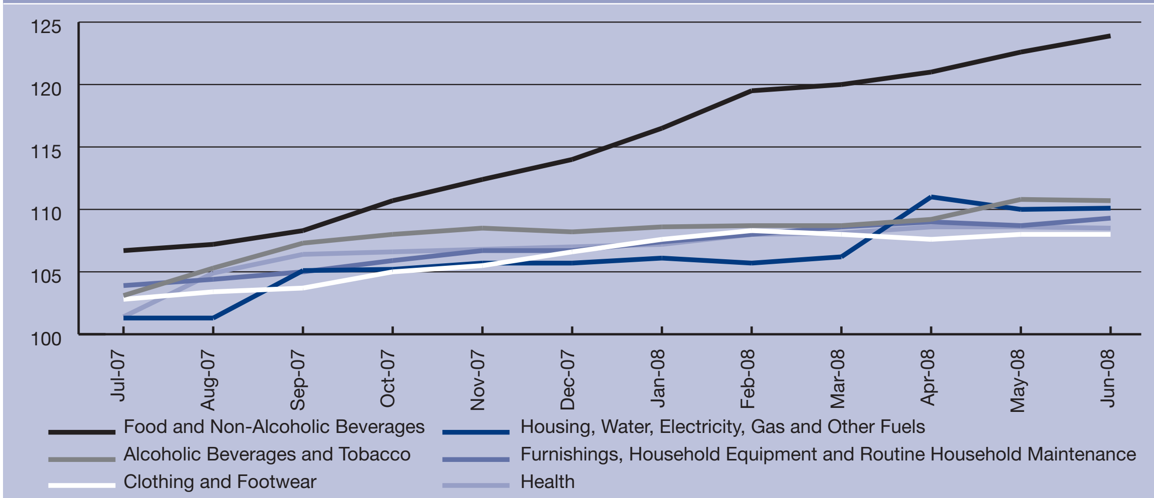
Source: Central Statistics Office, Government of Mauritius.

Table II.5: Quarterly Percentage Change in the Sub-indices of the CPI by Division *(Per Cent)*

DIVISIONS	Weights	Quarter ended Dec-07	Quarter ended Mar-08	Quarter ended Jun-08
1. Food	286	5.3	5.3	3.3
2. Alcoholic Beverages and Tobacco	92	0.8	0.5	1.8
3. Clothing and Footwear	51	2.8	1.3	0.0
4. Housing, Water, Electricity, Gas and Other Fuels	131	0.6	0.5	3.7
5. Furnishings, Household Equipment and Routine Household Maintenance	64	1.6	1.8	0.6
6. Health	30	0.6	1.0	0.4
7. Transport	147	4.1	0.4	3.7
8. Communication	36	-0.2	-0.1	-3.0
9. Recreation and Culture	48	0.2	0.7	0.0
10. Education	32	0.0	4.1	0.0
11. Restaurants and Hotels	43	2.6	7.0	1.5
12. Miscellaneous Goods and Services	40	1.3	1.0	2.8
ALL GROUPS	**1000**	**2.8**	**2.4**	**2.3**

Source: Central Statistics Office, Government of Mauritius.

Chart II.5 and II.6: Monthly Evolution of the Twelve Divisions of the CPI Basket of Goods and Services during 2007-08 (Base: July 2006 – June 2007 = 100)



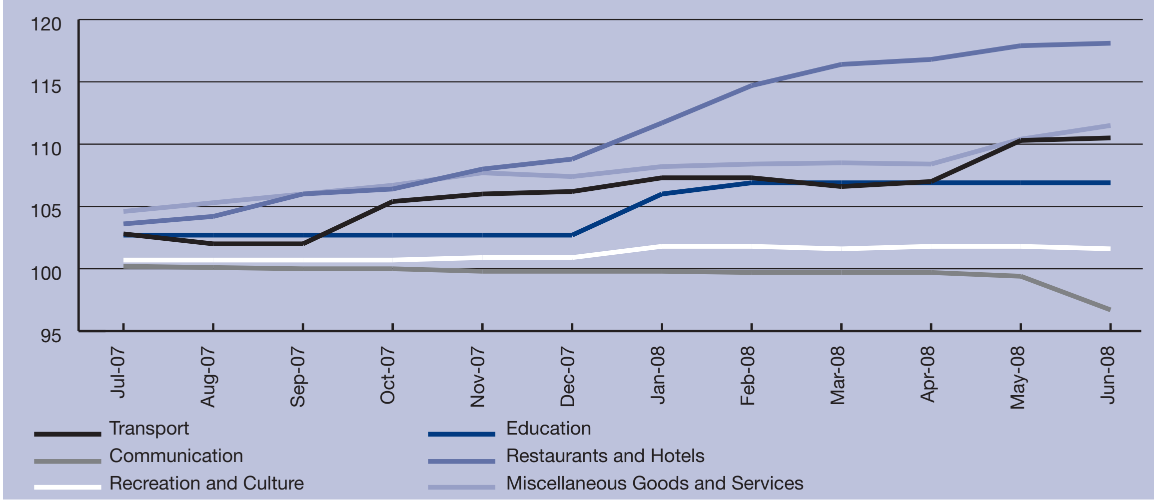
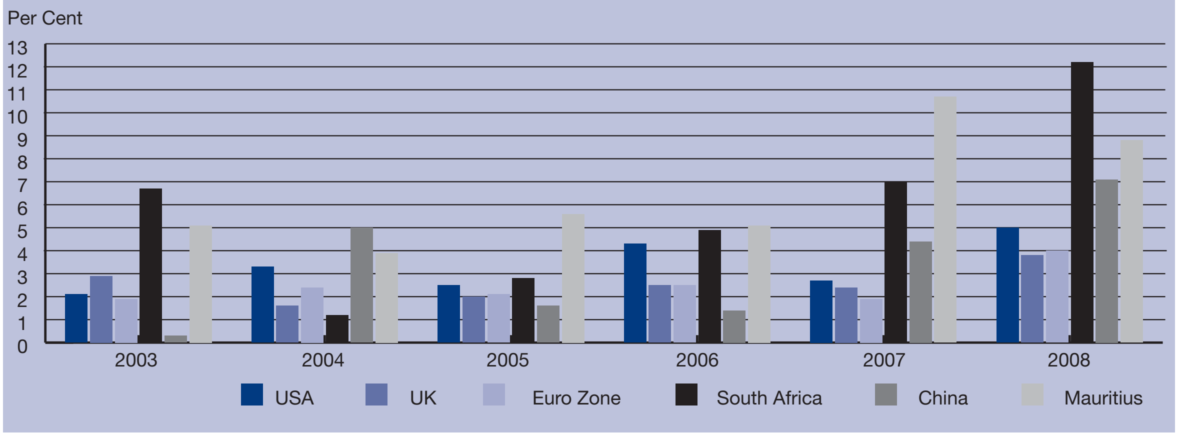


Chart II.7: Inflation Rates



CORE INFLATION

Effective July 2007, CORE1, CORE2 and TRIM10 inflation rates are compiled using the 2006-07 Household Budget Survey (HBS). The new HBS revised the weights of all divisions in the CPI basket and introduced a new group 'Mortgage interest on housing loan', which carries a weight of 37 in the basket of goods and services. The core inflation figures are thus not strictly comparable with core data prior to July 2007.

The first measure, CORE1 is obtained using the exclusion-based approach. It strips "Food, Beverages and Tobacco" components and mortgage interest on housing loan from headline inflation. The second measure, CORE2, also uses the exclusion-based approach. In addition to "Food, Beverages and Tobacco" and mortgage interest, it also excludes energy prices and administered prices from the overall CPI. The third measure of core inflation is calculated using the trimmed mean approach (TRIM10). It truncates 5 per cent of each tail of the distribution of price changes.

The core inflation measures suggest that since July 2007, core inflation deviated by between 1.5 and 4.1 percentage points from headline inflation, that is, core inflation stood within a range of 5.0 per cent and 7.6 per cent. Most of the deviations in core inflation can be explained by the increase in the food and non alcoholic beverages component of the consumer basket of goods and services, which accounted for 4.9 points out of the 9.7 points increase in the CPI between end July 2007 and end June 2008.

Chart II.8: Daily movements of oil prices during 2007-08

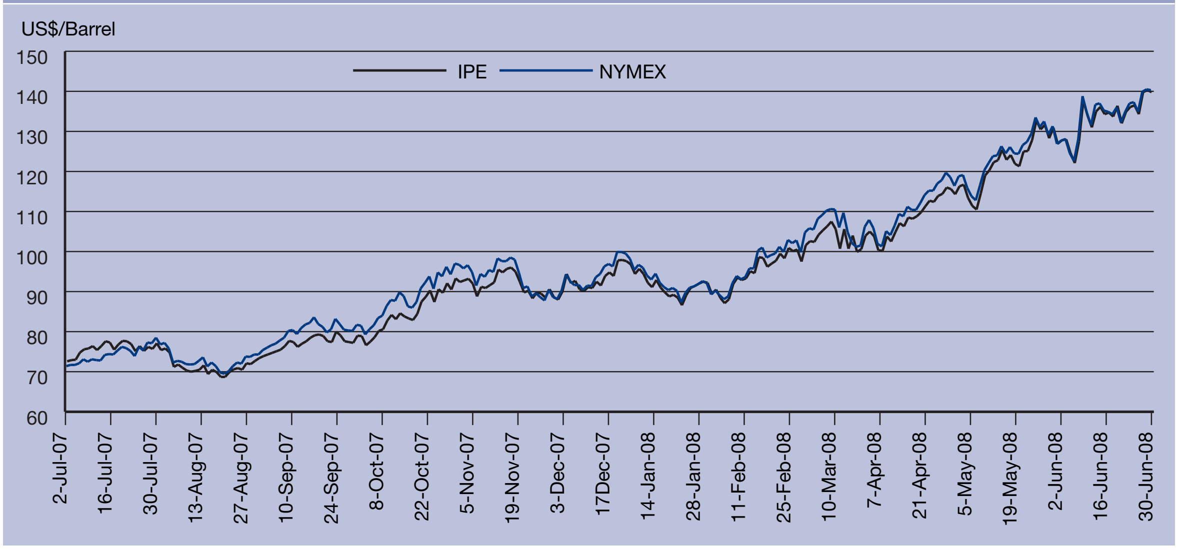


Chart II.9: Headline and Core Inflation

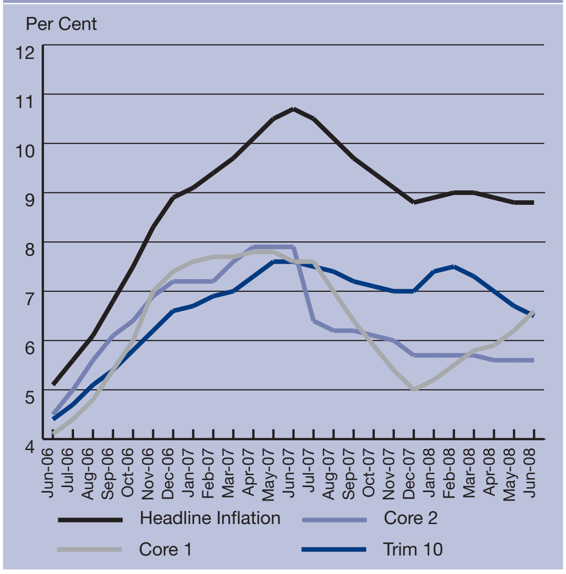


Chart II.10: Inflation Indicators

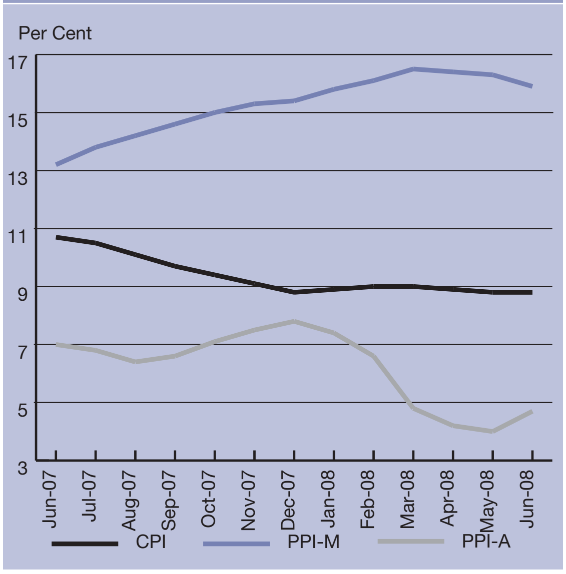


Chart II.9 shows the movements of headline inflation and the three measures of core inflation over the period June 2006 through June 2008.

PRODUCER PRICES

There are two measures of producer prices in Mauritius: the Producer Price Index-Manufacturing (PPI-M), which measures changes in the effective prices received by producers for that part of their output, which is sold on the domestic market and reflects the price trends of a constant basket of goods, representative of the output of the manufacturing industries; and Producer Price Index-Agriculture (PPI-A), which gives a measure of the average change in the selling prices which producers receive for their agricultural products.

The Producer Price Index-Agriculture (PPI-A) rose from 129.6 in June 2007 to 146.6 in June 2008, or 13.1 per cent as against an increase of 5.1 per cent in 2006-07. The PPI-A covers two sub-groups, namely “Crop products” and “Animals and animal products”. The index for ‘Crop products’, which carries 82.6% of the total weight, increased by 12.2 per cent for the fiscal year 2007-08 while the index for the other sub-group ‘Animals and animal products’ rose by 16.6 per cent. PPI-A inflation, which is calculated as the percentage change in the yearly average PPI-A index, declined from 7.0 per cent in 2006-07 to 4.8 per cent for the 12-months period ended June 2008.

The Producer Price Index-Manufacturing (PPI-M) went up from 147.8 in June 2007 to 165.7 in June 2008, or 12.1 per cent. The growth reflects the increase in the sub-index for “Manufacture of food products, beverages and tobacco” which accounts for nearly 50 per cent of the overall weight. PPI-M inflation, which is calculated as the percentage change in the yearly average PPI-M index, rose from 13.2 per cent in 2006-07 to 15.9 per cent for the 12-months period ended June 2008.

Chart II.10 gives the PPI-A inflation, PPI-M inflation and CPI inflation from June 2007 to June 2008.

Box I Household Budget Survey: 2006-07

The Central Statistics Office (CSO) carried out the eighth Household Budget Survey (HBS), which extended from July 2006 to June 2007. The consumption pattern of the Mauritian population was analysed and the consumption basket of goods and services used in the computation of the monthly Consumer Price Index (CPI) was updated. As from July 2007, the CPI is calculated on the basis of an updated basket of goods and services derived from the 2006-07 HBS. The base period used for this new CPI series is the twelve-month period running from July 2006 through June 2007.

In 2006-07, 'Food & non-alcoholic beverages' took the largest share of household consumption expenditure (30%) followed by 'Transport' (15%), 'Housing, water, electricity, gas & other fuels' (10%) and 'Alcoholic beverages & tobacco' (10%). The remaining categories of expenditure including clothing, footwear, household equipment and maintenance, health, education, communication and recreation together accounted for the remaining 35%.

There have been important shifts in the weights of some broad categories of expenditure and commodities as follows:

a) The weight for 'Food and non-alcoholic beverages' declined from 299 in 2001/02 to 286 in 2006/07.
b) The COICOP division of expenditure 'Housing, water, electricity, gas and other fuels' registered the highest increase in CPI weight from 96 in 2001/02 to 131 in 2006/07 mainly due to the introduction of interests on housing loan (weight of 37) for the first time in the CPI basket.
c) The weight for the COICOP division 'Furnishings, household equipment and routine household maintenance' registered a decrease from 80 to 64 largely due to a decrease in the weight for household bedding, curtain material and the like (from 9 to 4) and household appliances (from 12 to 7) such as ovens, refrigerators and washing machines.
d) The weight for 'Transport' increased from 139 to 147 mainly due to an increase in the weights or gasoline (from 27 to 36), diesel (from 4 to 8) and air transport (from 13 to 19) partly offset by a significant decline in the weight for bus fare (from 26 to 13) due to the introduction of free bus transport for students and the elderly.
e) The weight for 'Education' rose from 24 to 32 largely due to higher importance of university fees (from 3 to 10).
f) The weight for beer doubled from 12 to 24 between 2001/02 and 2006/07.
g) Items of communication such as mobile phone calls (increase from 4 to 8) and internet connection (increase from 2 to 3) are acquiring higher importance in the new CPI basket.
h) The weight for 'Expenditure in bars and restaurants' declined from 25 to 16 between 2001/02 and 2006/07.

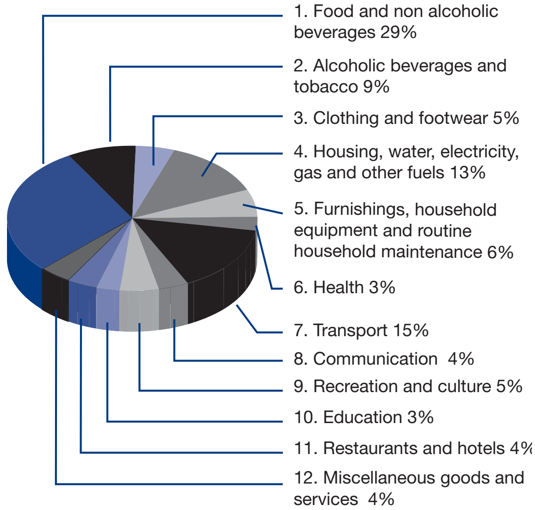
The following table and chart gives the weights assigned to the 12 divisions in the 2006-07 HBS and the share of the different divisions in terms of their respective weights in the new basket.

Weights of the 12 Divisions in the 2006-07 Household Budget Survey

DIVISIONS	*WEIGHTS*
1. Food and non alcoholic beverages	286
2. Alcoholic beverages and tobacco	92
3. Clothing and footwear	51
4. Housing, water, electricity, gas and other fuels	131
5. Furnishings, household equipment and routine household maintenance	64
6. Health	30
7. Transport	147
8. Communication	36
9. Recreation and culture	48
10. Education	32
11. Restaurants and hotels	43
12. Miscellaneous goods and services	40
TOTAL	1000

Source: Central Statistics Office, Government of Mauritius

Shares of Divisions in Terms of Weights



III. MONEY AND BANKING

MONETARY POLICY: 2007-08

During fiscal year 2007-08, the basic thrust of monetary policy was geared towards striking the right balance in generating a proper setting for sustained growth while taking pre-emptive measures to contain the propagation of inflationary impulses in the economy arising chiefly from international sources. Inflation, which is measured by the percentage change in the yearly average Consumer Price Index (CPI) in Mauritius, eased from 10.7 per cent in 2006-07 to 8.8 per cent in 2007-08. Inflation, though on the downside, still remained high, with its evolution influenced mainly by developments in food and energy prices. The Bank also aimed at promoting monetary conditions conducive to the reduction of the inflation differentials with the country's major trading and investment partners, while attempting to preserve the attractiveness of key rupee-denominated financial instruments and keeping in check any pressures on the domestic foreign exchange market.

The key Repo Rate is used by the Bank to signal changes in its monetary policy stance. The Bank continued to utilize a combination of open market operations, reserve requirements, an Overnight Facility and a Standing Facility as monetary policy operating procedures.

Since the establishment of the Monetary Policy Committee (MPC) on 23 April 2007, seven interest rate-setting meetings had been held till the end of June 2008. At the outset, the MPC was responsible for the formulation of monetary policy and had to submit its recommendation to the Board of Directors, which would decide on monetary policy. The Bank of Mauritius Act 2004 was subsequently amended and towards the end of August 2007 the MPC was empowered to formulate and determine the monetary policy to be conducted by the Bank.

The MPC comprises eight members as laid down under section 54 of the Bank of Mauritius Act 2004 – namely, the Governor of the Bank as chairperson, the two Deputy Governors, two Board Directors and three external members. Two observers and one honorary adviser were also appointed on the MPC. After initially meeting every two months, the MPC decided to meet on a quarterly basis but to convene interim meetings as and when the need arose.

In line with the common practice at most central banks to conduct monetary policy with a relatively high degree of transparency, the decision of the MPC is communicated immediately after a meeting and a press conference is generally held by the Governor on the next working day. The assessment of the MPC of the economic and financial conditions and outlook that motivated the monetary policy decision is explained in the Monetary Policy Statement, which is published a week after a meeting of the MPC. Views as well as the voting pattern are made public in the Monetary Policy Statement.

At the first interest rate-setting meeting held on 30 June 2007, the key Repo Rate was increased by 75 basis points, from 8.50 per cent to 9.25 per cent per annum, effective 2 July 2007. The tightening of the monetary policy stance was motivated by prevailing high inflation and a worsening inflation outlook. The policy decision also aimed towards hindering inflationary expectations from becoming entrenched. Rising oil and food prices, the pass-through of the depreciation of the rupee that occurred in the second half of 2006 into prices of consumer products and increase in excise duties were projected to generate upward pressures on the general price level.

The tight monetary policy stance was maintained but without further increase in the policy interest rate at the two subsequent meetings held on 21 August and 5 December 2007. The appreciation of the rupee in nominal terms vis-à-vis a basket of major trading currencies contributed to dampen upward pressures on prices, although upside risks to inflation from higher oil and food prices continued to weigh on the inflation outlook.

The MPC met on four occasions in the first half of 2008. There was a shift in the monetary policy stance against the backdrop of projected economic slowdown in Mauritius' major trading partner countries, which could potentially generate downside risks to domestic growth, and reductions in policy interest rates by several major central banks in the wake of the turmoil in international financial markets, which underscored the need to have interest rate differentials compatible with the maintenance of domestic financial and monetary stability. The key Repo Rate was successively reduced on three occasions to ease downside risks to domestic growth as the inflation outlook had marginally improved. At the special MPC meeting of 6 February 2008, the key Repo Rate was decreased by 25 basis points to 9.00 per cent per annum. The policy interest rate was further reduced by 50 basis points to 8.50 per cent per annum on 24 March 2008 and by an additional 50 basis points to 8.00 per cent per annum at the special MPC meeting held on 2 May 2008.

The 2008-09 budget together with the salary award in the public sector were expected to give a boost to consumption, while monetary and credit conditions were viewed as accommodative to higher inflation. This fiscal-monetary policy mix could intensify upside risks to inflation. Domestic economic growth prospects were uncertain on the back of weak growth prospects in major export markets, but the easing of monetary policy in the past few months were likely to contribute towards attenuating downside risks to growth. In its overall assessment of the growth and inflation outlook at the meeting held on 20 June 2008, the MPC concluded that, though inflationary pressures had intensified, downside risks to economic growth remained a major concern at this juncture and decided to maintain the policy interest rate unchanged at 8.00 per cent per annum. The MPC concurrently recognised that the balance of risk between inflation and growth might change, which might warrant a reassessment of the monetary policy stance.

DEPOSITORY CORPORATIONS SURVEY

The Depository Corporations Survey covers the Bank of Mauritius and other depository corporations, which comprised 19 banks and 13 nonbank deposit-taking institutions as at end of June 2008.

Net foreign assets of depository corporations grew by Rs466 million, from Rs83,162 million at the end of June 2007 to Rs83,628 million at the end of June 2008, or 0.6 per cent, compared to an increase of 29.5 per cent recorded in the previous fiscal year. Net foreign assets of other depository corporations fell by 14.0 per cent, in contrast to a rise of 41.4 per cent in 2006-07. Partly reflecting the net purchase of foreign currency by the Bank on the interbank foreign exchange market, the net foreign assets of Bank of Mauritius expanded by 9.2 per cent as against an expansion of 23.4 per cent in 2006-07.

Domestic claims of depository corporations, excluding claims on GBL holders, expanded by Rs48,261 million, from Rs210,443 million at the end of June 2007 to Rs258,704 million at the end of June 2008, or 22.9 per cent, higher than the 6.0 per cent growth noted in 2006-07. Net claims on budgetary central Government rose by Rs10,936 million, from Rs42,235 million at the end of June 2007 to Rs53,171 million at the end of June 2008, or 25.9 per cent, as against a decrease of 13.0 per cent in 2006-07. Claims on other sectors rose by Rs37,325 million, or 22.2 per cent, in 2007-08, higher than the 12.1 per cent increase recorded in the preceding year. Claims on GBL holders expanded by Rs1,106 million, from Rs10,158 million at the end of June 2007 to Rs11,264 million at the June 2008, or 10.9 per cent, lower than the 14.0 per cent increase in 2006-07.

Broad Money Liabilities (BML) grew by Rs36,767 million, from Rs215,408 million at the end of June 2007 to Rs252,175 million at the end of June 2008, or 17.1 per cent, higher than the rise of 8.6 per cent registered in the preceding fiscal year. Of the components of BML, currency with public rose by 11.4 per cent, higher than the increase of 11.2 per cent recorded between end-June 2006 and end-June 2007; transferable deposits went up by 26.7 per cent in contrast to the increase of 17.3 per cent in 2006-07; savings deposits increased by 13.1 per cent, higher than the growth of 7.2 per cent registered in the previous year; time deposits expanded by 16.9 per cent compared to an increase of 6.5 per cent in 2006-07; and securities other than shares included in broad money contracted by 16.3 per cent.

The Rupee component of deposits included in BML went up by 16.7 per cent in 2007-08, up from 7.7 per cent in 2006-07 while the foreign currency component of deposits included in BML rose by 21.8 per cent in contrast to a rise of 14.0 per cent a year ago.

Table III.1: Depository Corporations Survey

	Jun-06 (1) (Rs Mn)	Jun-07 (2) (Rs Mn)	Jun-08 (3) (Rs Mn)	Change Between (1) and (2) (Rs Mn)	(Per cent)	Change Between (2) and (3) (Rs Mn)	(Per cent)
1. Net Foreign Assets	**64,202.2**	**83,161.6**	**83,627.6**	**18,959.4**	**29.5**	**466.0**	**0.6**
Bank of Mauritius	42,314.6	52,222.7	57,026.5	9,908.1	23.4	4,803.8	9.2
Other Depository Corporations	21,887.6	30,938.9	26,601.1	9,051.3	41.4	-4,337.8	-14.0
Banks	*21,909.4*	*30,978.2*	*26,719.9*	*9,068.8*	*41.4*	*-4,258.3*	*-13.7*
Non-Bank Deposit-Taking Institutions	*-21.9*	*-39.3*	*-118.8*	*-17.5*	*80.0*	*-79.5*	*202.1*
2. Domestic Claims	**198,605.6**	**210,442.8**	**258,703.8**	**11,837.2**	**6.0**	**48,261.0**	**22.9**
A. Net Claims on Central Government	***48,544.2***	***42,235.5***	***53,171.3***	***-6,308.8***	***-13.0***	***10,935.8***	***25.9***
Bank of Mauritius	1,011.2	-1,417.3	-4,361.6	-2,428.5	-240.2	-2,944.3	-207.7
Other Depository Corporations	47,533.1	43,652.8	57,532.9	-3,880.3	-8.2	13,880.1	31.8
Banks	*45,728.6*	*41,517.1*	*56,126.3*	*-4,211.4*	*-9.2*	*14,609.2*	*35.2*
Non-Bank Deposit-Taking Institutions	*1,804.5*	*2,135.7*	*1,406.5*	*331.2*	*18.4*	*-729.2*	*-34.1*
B. Claims on Other Sectors	***150,061.4***	***168,207.3***	***205,532.6***	***18,145.9***	***12.1***	***37,325.3***	***22.2***
Bank of Mauritius	244.1	238.1	134.5	-6.1	-2.5	-103.6	-43.5
Other Depository Corporations	149,817.2	167,969.2	205,398.0	18,152.0	12.1	37,428.8	22.3
Banks	*125,975.2*	*141,686.9*	*176,763.8*	*15,711.7*	*12.5*	*35,076.9*	*24.8*
Non-Bank Deposit-Taking Institutions	*23,842.0*	*26,282.3*	*28,634.2*	*2,440.3*	*10.2*	*2,351.9*	*8.9*
3. ASSETS = LIABILITIES	**262,807.8**	**293,604.4**	**342,331.4**	**30,796.6**	**11.7**	**48,727.0**	**16.6**
4. Broad Money Liabilities	**198,414.7**	**215,407.8**	**252,175.1**	**16,993.1**	**8.6**	**36,767.3**	**17.1**
A. Currency with Public	***10,432.0***	***11,597.3***	***12,914.4***	***1,165.3***	***11.2***	***1,317.1***	***11.4***
B. Transferable Deposits	***35,935.0***	***42,148.6***	***53,396.6***	***6,213.6***	***17.3***	***11,248.0***	***26.7***
Bank of Mauritius	435.7	643.4	288.9	207.6	47.7	-354.5	-55.1
Other Depository Corporations	35,499.2	41,505.2	53,107.7	6,006.0	16.9	11,602.5	28.0
Banks	*35,499.2*	*41,505.2*	*53,107.7*	*6,006.0*	*16.9*	*11,602.5*	*28.0*
Non-Bank Deposit-Taking Institutions	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
C. Savings Deposits	***60,930.7***	***65,344.0***	***73,897.5***	***4,413.3***	***7.2***	***8,553.5***	***13.1***
Bank of Mauritius	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Depository Corporations	60,930.7	65,344.0	73,897.5	4,413.3	7.2	8,553.5	13.1
Banks	*59,822.0*	*64,224.1*	*73,136.0*	*4,402.1*	*7.4*	*8,911.9*	*13.9*
Non-Bank Deposit-Taking Institutions	*1,108.7*	*1,119.8*	*761.5*	*11.1*	*1.0*	*-358.3*	*-32.0*
D. Time Deposits	***88,670.7***	***94,478.0***	***110,426.9***	***5,807.2***	***6.5***	***15,948.9***	***16.9***
Bank of Mauritius	283.8	205.3	97.3	-78.5	-27.6	-108.0	-52.6
Other Depository Corporations	88,386.9	94,272.6	110,329.7	5,885.7	6.7	16,057.1	17.0
Banks	*70,195.7*	*75,787.0*	*86,890.1*	*5,591.3*	*8.0*	*11,103.1*	*14.7*
Non-Bank Deposit-Taking Institutions	*18,191.2*	*18,485.6*	*23,439.5*	*294.4*	*1.6*	*4,953.9*	*26.8*
E. Securities other than Shares	***2,446.3***	***1,840.0***	***1,539.5***	***-606.3***	***-24.8***	***-300.5***	***-16.3***
Bank of Mauritius	1,416.3	647.9	167.6	-768.4	-54.3	-480.3	-74.1
Other Depository Corporations	1,030.0	1,192.1	1,372.0	162.1	15.7	179.9	15.1
Banks	*674.3*	*727.4*	*784.8*	*53.1*	*7.9*	*57.4*	*7.9*
Non-Bank Deposit-Taking Institutions	*355.7*	*464.7*	*587.2*	*109.0*	*30.6*	*122.5*	*26.4*
5. Other	**64,393.1**	**78,196.5**	**90,156.3**	**13,803.5**	**21.4**	**11,959.8**	**15.3**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

Narrow Money Liabilities (NML), which comprises currency with public and rupee transferable deposits, increased by Rs6,047 million, from Rs40,101 million at the end of June 2007 to Rs46,148 million at the end of June 2008, or 15.1 per cent, higher than the rise of 10.4 per cent registered in 2006-07.

The increase of 17.1 per cent in BML in 2007-08 resulted from positive contributions of 17.3 and 5.1 percentage points in claims on other sectors and net claims on budgetary Central Government. Net foreign assets of depository corporations exerted positive contributions of 0.2 per cent. Net other items exerted negative contributions of 5.5 percentage points, respectively. The increase of 8.6 per cent in BML in 2006-07 resulted from positive contributions of 9.6 percentage points in net foreign assets of depository corporations and 9.2 percentage points in claims on other sectors. Net claims on budgetary central government and net other items exerted negative contributions of 3.2 percentage points and 7.0 percentage points, respectively.

As a percentage of GDP at market prices, average BML fell from 94.6 per cent in 2006-07 to 93.9 per cent in 2007-08, average NML fell from 17.4 per cent in 2006-07 to 17.0 per cent in 2007-08 while average domestic claims fell from 93.6 per cent to 90.8 per cent. Average Claims on Other Sectors fell from 73.3 per cent in 2006-07 to 72.6 per cent in 2007-08.

Table III.2a: Monetary Ratios

	Jun-06	Jun-07	Jun-08
1. Monthly Average for year ended (Rs million)			
A. Monetary Base	20,701	22,362	25,590
	(+15.0)	*(+8.0)*	*(+14.4)*
B. Broad Money Liabilities (BML)	189,215	207,122	235,972
	(+7.4)	*(+9.5)*	*(+13.9)*
(a) Currency with public	10,445	11,447	12,703
	(+10.2)	*(+9.6)*	*(+11.0)*
(b) Transferable deposits	34,272	39,063	47,109
	(+0.6)	*(+14.0)*	*(+20.6)*
(c) Savings deposits	59,782	63,303	67,376
	(+9.8)	*(+5.9)*	*(+6.4)*
(d) Time deposits	82,223	91,568	107,204
	(+10.3)	*(+11.4)*	*(+17.1)*
(e) Securities other than shares included in	2,494	1,742	1,581
broad money	*(-31.5)*	*(-30.2)*	*(-9.3)*
2. Average Broad Money Multiplier	**9.1**	**9.3**	**9.2**
3. Other Monetary Ratios (Per cent)			
A. Currency to BML	5.5	5.5	5.4
B. Transferable Deposits to BML	18.1	18.9	20.0
C. Savings deposits to BML	31.6	30.6	28.6
D. Time Deposits to BML	43.5	44.2	45.4
E. Securities other than shares inc. in broad money to BML	1.3	0.8	0.7

Notes : (i) Figures in brackets represent percentage change over previous period. (ii) The average Broad Money Multiplier is defined as the ratio of average Broad Money Liabilities to average Monetary Base.

Source: Statistics Division.

Table III.2b: Income Velocity of Circulation of Money

	Income Velocity of Circulation of Currency	Income Velocity of Circulation of Narrow Money Liabilities	Income Velocity of Circulation of Broad Money Liabilities
2005-06	18.6	5.6	1.0
2006-07	19.1	5.8	1.1
2007-08	19.8	5.9	1.1

Source: Statistics Division.

Table III.1 shows the Depository Corporations Survey as at end-June 2006 through end-June 2008.

Trends in Monetary Base and Monetary Ratios

The monthly average level of the monetary base went up from Rs22,362 million in 2006-07 to Rs25,590 million in 2007-08, or 14.4 per cent, compared to an increase of 8.0 per cent in 2006-07. The monthly average level of broad money liabilities rose from Rs207,122 million to Rs235,972 million, or 13.9 per cent, between end-June 2007 and end-June 2008, up from 9.5 per cent in 2006-07. Consequently, the average multiplier for broad money liabilities decreased from 9.3 in 2006-07 to 9.2 in 2007-08.

On an average basis and as a ratio of broad money liabilities, currency with public fell from 5.5 per cent in 2006-07 to 5.4 per cent in 2007-08; transferable deposits rose from 18.9 per cent to 20.0 per cent; savings deposits fell from 30.6 per cent to 28.6 per cent; time deposits improved from 44.2 per cent to 45.4 per cent; and securities other than shares included in broad money fell from 0.8 per cent to 0.7 per cent over the same period.

The income velocity of circulation of broad money liabilities stood almost unchanged at 1.1 in 2007-08. Table III.2a gives details on monetary ratios for the years ended June 2006 through June 2008 and Table III.2b gives details on the income velocity of circulation for the years 2005-06 through 2007-08.

Central Bank Survey

The Central Bank Survey (CBS), which is one component survey of the DCS, shows the components of the monetary base. The monetary base consists of central bank liabilities that support the expansion of broad money and credit.

The monetary base expanded by Rs3,487 million, or 14.6 per cent, from Rs23,841 million at the end of June 2007 to Rs27,328 million at the end of June 2008, as against an expansion of 8.3 per cent in 2006-07. Of its major components, currency in circulation rose by 11.1 per cent compared to an increase of 10.3 per cent in 2006-07 and reserve deposits increased by 25.9 per cent as against an increase of 4.8 per cent in 2006-07.

On the sources side of the monetary base, net foreign assets of the Bank increased by Rs4,804 million, or 9.2 per cent, from Rs52,223 million at the end of June 2007 to Rs57,027 million at the end of June 2008 as compared to an increase of 23.4 per cent in the previous fiscal year. Domestic claims by the Bank contracted by 706.1 per cent, at the

Table III.3: Central Bank Survey

	Jun-06 (1) (Rs Mn)	Jun-07 (2) (Rs Mn)	Jun-08 (3) (Rs Mn)	Change Between (1) and (2) (Rs Mn)	(Per Cent)	Change Between (2) and (3) (Rs Mn)	(Per Cent)
1. Net Foreign Assets	**42,314.6**	**52,222.7**	**57,026.5**	**9,908.1**	**23.4**	**4,803.8**	**9.2**
Claims on Nonresidents	42,458.6	52,772.1	57,059.0	10,313.5	24.3	4,286.9	8.1
Liabilities to Nonresidents	144.0	549.4	32.5	405.4	281.5	-516.9	-94.1
2. Domestic Claims	**3,093.8**	**534.7**	**-3,240.9**	**-2,559.1**	**-82.7**	**-3,775.6**	**-706.1**
A. Net Claims on Budgetary Central Government	1,011.2	-1,417.3	-4,361.6	-2,428.5	-240.2	-2,944.3	-207.7
B. Claims on Other Sectors	244.1	238.1	134.5	-6.1	-2.5	-103.5	-43.5
C. Claims on Other Depository Corporations	1,838.5	1,714.0	986.2	-124.5	-6.8	-727.7	-42.5
3. ASSETS = LIABILITIES	**45,408.4**	**52,757.4**	**53,785.6**	**7,349.0**	**16.2**	**1,028.2**	**1.9**
4. Monetary Base	**22,015.3**	**23,840.9**	**27,327.5**	**1,825.6**	**8.3**	**3,486.6**	**14.6**
A. Currency in Circulation	12,248.1	13,511.8	15,008.3	1,263.8	10.3	1,496.5	11.1
B. Liabilities to Other Depository Corporations	9,047.7	9,480.3	11,933.0	432.6	4.8	2,452.7	25.9
C. Deposits Included in Broad Money	719.5	848.7	386.2	129.2	18.0	-462.5	-54.5
5. Securities other than Shares Included in Broad Money	**1,416.3**	**647.9**	**167.6**	**-768.4**	**-54.3**	**-480.3**	**-74.1**
6. Other	**21,976.8**	**28,268.7**	**26,290.6**	**6,291.9**	**28.6**	**-1,978.1**	**-7.0**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

end of June 2008, as against a decrease of 82.7 per cent in 2006-07.

Table III.3 shows the Central Bank Survey as at end-June 2006 through end-June 2008.

Other Depository Corporations Survey

The Other Depository Corporations Survey (ODCS) is the other component survey of the DCS and covers all institutional units that issue liabilities included in the national definition of broad money. The liability side of the ODCS is structured to show those liabilities that are included in broad money and the assets side focuses on credit extended to nonresidents and to each of the various domestic sectors.

Net foreign assets of ODCs contracted by Rs4,338 million, or 14.0 per cent, from Rs30,939 million at the end of June 2007 to Rs26,601 million at the end of June 2008, as against an expansion of 41.4 per cent in 2006-07. Claims on nonresidents rose by Rs2,598 million, or 1.0 per cent, to Rs269,821 million while liabilities to nonresidents increased by Rs6,936 million, or 2.9 per cent, to Rs243,220 million at the end of June 2008.

Domestic claims rose by Rs55,273 million, or 24.3 per cent, from Rs227,828 million at the end of June 2007 to Rs283,102 million at the end of June 2008, compared to a growth of 8.0 per cent in the preceding fiscal year. Of the components of domestic claims, net claims on Central Government increased by Rs13,880 million, or 31.8 per cent, to Rs57,533 million, as against the drop of 8.2 per cent recorded in the previous fiscal year. Claims on other sectors grew by Rs37,429 million, or 22.3 per cent, to Rs205,398 million, compared to a growth of 12.1 per cent noted in 2006-07. Claims on the central bank, the other component, rose by Rs3,964 million, or 24.5 per cent, to Rs20,171 million at the end of June 2008 compared to an increase of Rs2,625 million, or 19.3 per cent, in the preceding fiscal year.

Claims on GBL Holders went up by Rs1,106

Table III.4: Other Depository Corporations Survey

	Jun-06 (1) (Rs Mn)	Jun-07 (2) (Rs Mn)	Jun-08 (3) (Rs Mn)	Change Between (1) and (2) (Rs Mn)	(Per Cent)	Change Between (2) and (3) (Rs Mn)	(Per Cent)
1. Net Foreign Assets	**21,887.6**	**30,938.9**	**26,601.1**	**9,051.3**	**41.4**	**-4,337.7**	**-14.0**
Claims on Nonresidents	202,668.5	267,222.7	269,821.0	64,554.2	31.9	2,598.3	1.0
Liabilities to Nonresidents	180,780.9	236,283.9	243,219.9	55,502.9	30.7	6,936.0	2.9
2. Domestic Claims	**210,931.2**	**227,828.3**	**283,101.5**	**16,897.1**	**8.0**	**55,273.2**	**24.3**
A. Net Claims on Central Government	47,533.1	43,652.8	57,532.9	-3,880.3	-8.2	13,880.0	31.8
B. Claims on Other Sectors	149,817.2	167,969.2	205,398.0	18,152.0	12.1	37,428.8	22.3
C. Claims on Central Bank	13,580.9	16,206.2	20,170.6	2,625.3	19.3	3,964.4	24.5
3. Claims on Global Business Licence Holders Sector	**8,907.1**	**10,158.2**	**11,264.0**	**1,251.1**	**14.0**	**1,105.8**	**10.9**
4. ASSETS = LIABILITIES	**241,725.9**	**268,925.3**	**320,966.7**	**27,199.4**	**11.3**	**52,041.3**	**19.4**
5. Liabilities to Central Bank	**1,700.2**	**1,368.5**	**852.2**	**-331.7**	**-19.5**	**-516.3**	**-37.7**
6. Deposits Included in Broad Money	**184,816.9**	**201,121.8**	**237,334.9**	**16,304.9**	**8.8**	**36,213.0**	**18.0**
A. Transferable Deposits	35,499.2	41,505.2	53,107.7	6,006.0	16.9	11,602.5	28.0
B. Savings Deposits	60,930.7	65,344.0	73,897.5	4,413.3	7.2	8,553.5	13.1
C. Time Deposits	88,386.9	94,272.6	110,329.7	5,885.7	6.7	16,057.0	17.0
7. Securities other than Shares included in Broad Money	**1,030.0**	**1,192.1**	**1,372.0**	**162.1**	**15.7**	**179.9**	**15.1**
8. Other	**54,178.8**	**65,242.9**	**81,407.6**	**11,064.1**	**20.4**	**16,164.7**	**24.8**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

million, or 10.9 per cent, from Rs10,158 million at the end of June 2007 to Rs11,264 million at the end of June 2008, lower than the growth of 14.0 per cent registered in 2006-07.

Deposits included in broad money grew by Rs36,213 million, or 18.0 per cent, from Rs201,122 million at the end of June 2007 to Rs237,335 million at the end of June 2008, higher than the rise of 8.8 per cent recorded during the previous fiscal year. Transferable deposits increased by Rs11,603 million to Rs53,108 million, or 28.0 per cent, compared to an increase of 16.9 per cent in 2006-07. Savings deposits went up by Rs8,554 million, or 13.1 per cent, to Rs73,898 million as against a rise of 7.2 per cent in 2006-07, and time deposits expanded by Rs16,057 million to Rs110,330 million, or 17.0 per cent, compared to a growth of 6.7 per cent in 2006-07.

Securities other than shares included in Broad Money went up by Rs180 million, from Rs1,192 million at the end of June 2007 to Rs1,372 million at the end of June 2008, or 15.1 per cent, slightly lower than the increase of 15.7 per cent registered in the preceding fiscal year.

Table III.4 presents the Other Depository Corporations Survey as at end-June 2006 through end-June 2008.

Banks Survey

The total assets (liabilities) of banks grew by Rs48,046 million, or 20.5 per cent, from Rs234,943 million at the end of June 2007 to Rs282,989 million at the end of June 2008, higher than the rise of 11.5 per cent noted in the previous fiscal year.

Net foreign assets of banks contracted by Rs4,258 million, or 13.7 per cent, from Rs30,978 million at the end of June 2007 to Rs26,720 million at the end of June 2008, in contrast to an expansion of 41.4 per cent in 2006-07. The contraction in net foreign assets during fiscal year 2007-08 was the net result of an increase in liabilities to nonresidents of Rs6,855 million, or 2.9 per cent, more than offsetting the rise in claims on nonresidents of Rs2,597 million or 1.0 per cent.

Domestic claims expanded by Rs52,304 million, or 25.6 per cent, from Rs203,965 million at the end of June 2007 to Rs256,269 million at the end of June 2008, significantly higher than the growth of 8.1 per cent recorded in the preceding fiscal year. Of the components of domestic claims, net claims on Central Government increased by Rs14,609 million, or 35.2 per cent, from Rs41,517 million at the end of June 2007 to Rs56,126 million at the end of June 2008. Claims on Other Sectors grew by Rs35,077 million, or 24.8 per cent, higher than the increase of 12.5 per cent in 2006-07. Claims on the Bank of Mauritius rose by Rs4,013 million, or 24.8 per cent while claims on NonBank Deposit-Taking Institutions decreased by Rs1,395 million, or 30.3 per cent, to Rs3,209 million over the same period.

Deposits included in broad money grew by Rs31,618 million, or 17.4 per cent, from Rs181,516 million at the end of June 2007 to Rs213,134 million at the end of June 2008 compared to the rise of 9.7 per cent registered in the preceding fiscal year. This expansion stemmed from increases of Rs11,603 million, or 28.0 per cent, in transferable deposits, Rs11,103 million, or 14.7 per cent, in time deposits and Rs8,912 million, or 13.9 per cent in savings deposits.

Table III.5 shows the Banks Survey as at end-June 2006 through end-June 2008.

Non-Banks Deposit-Taking Institutions' Survey

Total assets (liabilities) of non-bank deposit-taking institutions expanded by Rs3,607 million, or 11.8 per cent, from Rs30,644 million at the end of June 2007 to Rs34,252 million at the end of June 2008, compared to an increase of 8.4 per cent in the preceding fiscal year.

Domestic claims went up by Rs3,687 million, or 12.0 per cent, from Rs30,684 million at the end of June 2007 to Rs34,371 million at the end of June 2008. This expansion in domestic claims can be explained by the increases of Rs2,352 million or 8.9 per cent in claims on other sectors and Rs2,113 million or 95.3 per cent in claims on banks offsetting the falls of Rs729 million, or 34.1 per cent, and Rs49 million, or 99.3 per cent, in net claims on central government and claims on the Bank of Mauritius, respectively.

Deposits included in broad money grew by Rs4,596 million, or 23.4 per cent, from Rs19,605 million at the end of June 2007 to Rs24,201 million at the end of June 2008. The bulk of the increase was accounted for by the expansion of Rs4,954 million, or 26.8 per cent, in time deposits offsetting the fall in savings deposits of Rs358 million, or 32.0 per cent.

Securities other than shares included in broad money rose by Rs123 million, or 26.4 per cent, from Rs465 million to Rs587 million during fiscal year 2007-08.

Table III.6 shows the Non-Bank Deposit-Taking Institutions Survey as at end-June 2006 through end-June 2008.

BANKING SECTOR

Main Features

At the end of June 2008, the banking sector in Mauritius comprised nineteen banks that are licensed to carry out banking business. Of these, six are locally incorporated; eight are foreign-owned banks incorporated locally while five are branches of foreign banks. AfrAsia Bank Limited started its operations as from 2 October 2007 and was granted a banking licence on 29 August 2007.

In total, these banks were operating 186 branches, 12 counters, 1 mobile van and 382 Automated Teller Machines (ATMs) in Mauritius and were employing 6,071 people at the end of June 2008. The number of inhabitants per branch went down from 7,081 as at end-June 2007 to 6,820 as at end-June 2008. Besides traditional banking facilities, eleven banks offer card-based payment services such as credit and debit cards while nine banks provide internet banking and three banks provide phone banking facilities. Between end-June 2007 and end-June 2008, the number of cards in circulation increased by 64,532, from 1,031,836 to 1,096,368, with the number of credit cards rising by 19,548 and debit and other cards rising by 44,984.

Table III.5: Banks Survey

	Jun-06 (1)	Jun-07 (2)	Jun-08 (3)	Change Between (1) and (2)		Change Between (2) and (3)	
	(Rs Mn)	(Rs Mn)	(Rs Mn)	(Rs Mn)	(Per Cent)	(Rs Mn)	(Per Cent)
1. Net Foreign Assets	**21,909.4**	**30,978.2**	**26,719.9**	**9,068.8**	**41.4**	**-4,258.3**	**-13.7**
Claims on Nonresidents	202,668.5	267,222.5	269,819.4	64,554.0	31.9	2,596.9	1.0
Liabilities to Nonresidents	180,759.0	236,244.3	243,099.5	55,485.3	30.7	6,855.2	2.9
2. Domestic Claims	**188,753.3**	**203,964.7**	**256,269.1**	**15,211.4**	**8.1**	**52,304.4**	**25.6**
A. Net Claims on Central Government	45,728.6	41,517.1	56,126.3	-4,211.5	-9.2	14,609.2	35.2
B. Claims on Other Sectors	125,975.2	141,686.9	176,763.8	15,711.7	12.5	35,076.9	24.8
C. Claims on Central Bank	13,444.1	16,157.2	20,170.3	2,713.1	20.2	4,013.1	24.8
D. Claims on Non-Bank Deposit-Taking Institutions	3,605.4	4,603.5	3,208.7	998.1	27.7	-1,394.8	-30.3
3. ASSETS = LIABILITIES	**210,662.7**	**234,942.9**	**282,989.0**	**24,280.2**	**11.5**	**48,046.1**	**20.5**
4. Liabilities to Central Bank	**1,681.0**	**1,351.7**	**838.4**	**-329.3**	**-19.6**	**-513.3**	**-38.0**
5. Deposits Included in Broad Money	**165,517.0**	**181,516.4**	**213,133.8**	**15,999.4**	**9.7**	**31,617.5**	**17.4**
A. Transferable Deposits	35,499.2	41,505.2	53,107.7	6,006.0	16.9	11,602.5	28.0
B. Savings Deposits	59,822.0	64,224.1	73,136.0	4,402.1	7.4	8,911.9	13.9
C. Time Deposits	70,195.7	75,787.0	86,890.1	5,591.3	8.0	11,103.1	14.7
6. Securities other than Shares included in Broad Money	**674.3**	**727.4**	**784.8**	**53.1**	**7.9**	**57.4**	**7.9**
7. Liabilities to NonBank Deposit-Taking Institutions	**2,409.6**	**2,081.0**	**4,285.8**	**-328.6**	**-13.6**	**2,204.8**	**106.0**
8. Other	**40,380.8**	**49,266.3**	**63,946.1**	**8,885.6**	**22.0**	**14,679.8**	**29.8**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

The average balance per account for demand, savings, time and foreign currency deposits stood at Rs137,277, Rs50,692, Rs580,941 and Rs5,928,153 at the end of June 2008 compared to Rs142,936, Rs44,398, Rs522,799 and Rs5,477,551 at the end of June 2007.

Sectorwise Distribution of Credit

Credit extended to the private sector by banks grew by Rs24,466 million, or 18.6 per cent, from Rs131,381 million at the end of June 2007 to Rs155,847 million at the end of June 2008, compared to an increase of 10.0 per cent registered over the preceding fiscal year. Average private sector credit as a percentage of GDP at market prices went down from 58.4 per cent in 2006-07 to 57.3 per cent in 2007-08. Construction and tourism sectors continued to drive the increase in bank credit, representing respective shares of 28.8 per cent and 25.2 per cent to total credit expansion in 2007-08. The "Agriculture and Fishing", "Manufacturing" and "Financial and Business Services" and "Personal" sectors were the other major recipients of additional credit with around 40.7 per cent of the increase channelled towards them. Credit to the household sector remained buoyant with an increase of Rs5,030 million or representing 20.6 per cent of the increase in total credit expansion in 2007-08. Its share of average credit to GDP at market prices stood at 13.1 per cent in 2007-08, up from 12.8 per cent a year earlier.

Loans and overdrafts facilities went up by Rs13,195 million, or 12.5 per cent, to Rs118,822 million at the end of June 2008, lower than the increase of 13.8 per cent noted in 2006-07. They represented 76.2 per cent of total credit at the end of June 2008, from 80.4 per cent at the end of June 2007. Foreign currency financing of credit increased by Rs11,592 million, or 85.7 per cent, to Rs25,118 million at the end of June 2008, in contrast to a decrease of 10.6 per cent in 2006-07. Local Bills Purchased and Discounted expanded by Rs45.5 million, or 4.1 per cent, to Rs1,145 million, compared to a fall of 0.6 per cent recorded in the preceding fiscal year. As a share of total credit, they accounted for 0.7 per

Table III.6: Non-Bank Deposit-Taking Institutions' Survey

	Jun-06 (1) (Rs Mn)	Jun-07 (2) (Rs Mn)	Jun-08 (3) (Rs Mn)	Change Between (1) and (2) (Rs Mn)	Change Between (1) and (2) (Per cent)	Change Between (2) and (3) (Rs Mn)	Change Between (2) and (3) (Per cent)
1. Net Foreign Assets	**-21.9**	**-39.3**	**-118.8**	**-17.5**	**80.0**	**-79.5**	**202.1**
Claims on Nonresidents	0.0	0.2	1.6	0.2	0.0	1.4	650.5
Liabilities to Nonresidents	21.9	39.5	120.4	17.7	80.9	80.9	204.5
2. Domestic Claims	**28,280.1**	**30,683.6**	**34,370.5**	**2,403.5**	**8.5**	**3,686.9**	**12.0**
A. Net Claims on Central Government	1,804.5	2,135.7	1,406.5	331.2	18.4	-729.2	-34.1
B. Claims on Other Sectors	23,842.0	26,282.3	28,634.2	2,440.3	10.2	2,351.9	8.9
C. Claims on Central Bank	136.8	49.0	0.4	-87.8	-64.2	-48.7	-99.3
D. Claims on Banks	2,496.8	2,216.6	4,329.4	-280.2	-11.2	2,112.8	95.3
3. ASSETS = LIABILITIES	**28,258.2**	**30,644.3**	**34,251.7**	**2,386.1**	**8.4**	**3,607.3**	**11.8**
4. Liabilities to Central Bank	**19.2**	**16.7**	**13.8**	**-2.5**	**-12.8**	**-3.0**	**-17.8**
5. Deposits Included in Broad Money	**19,299.9**	**19,605.4**	**24,201.1**	**305.5**	**1.6**	**4,595.6**	**23.4**
A. Transferable Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Savings Deposits	1,108.7	1,119.8	761.5	11.1	1.0	-358.3	-32.0
C. Time Deposits	18,191.2	18,485.6	23,439.5	294.4	1.6	4,954.0	26.8
6. Securities other than Shares included in Broad Money	**355.7**	**464.7**	**587.2**	**109.0**	**30.6**	**122.5**	**26.4**
7. Liabilities to Banks	**3,302.7**	**4,646.1**	**2,973.1**	**1,343.4**	**40.7**	**-1,673.0**	**-36.0**
8. Other	**5,280.7**	**5,911.3**	**6,476.6**	**630.5**	**11.9**	**565.4**	**9.6**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

Table III.7: Sectorwise Distribution of Credit to the Private Sector

Sectors	Jun-06 (1) (Rs Mn)	Jun-07 (2) (Rs Mn)	Jun-08 (3) (Rs Mn)	Change between (1) and (2) (Rs Mn)	Per cent	Change between (2) and (3) (Rs Mn)	Per cent
Agriculture & Fishing	**7,844.4**	**6,851.7**	**9,248.1**	**-992.7**	**-12.7**	**2,396.4**	**35.0**
- *of which*							
Sugar Industry - Estates	5,105.4	4,129.0	5,487.7	-976.4	-19.1	1,358.8	32.9
Sugar Industry - Others	706.2	608.7	992.3	-97.5	-13.8	383.6	63.0
Agricultural Development Certificate Holders	17.2	17.5	18.2	0.3	1.5	0.7	3.8
Agro-based Industrial Certificate Holders	14.1	13.5	9.9	-0.6	-4.1	-3.6	-26.6
Sugarcane Planters	626.0	708.2	692.3	82.1	13.1	-15.8	-2.2
Other Plantation	48.0	52.7	114.2	4.7	9.8	61.4	116.5
Animal Breeding	684.4	606.7	553.3	-77.7	-11.3	-53.5	-8.8
Fishing	84.3	203.4	253.9	119.1	141.3	50.5	24.8
Other	558.7	511.9	1,126.4	-46.8	-8.4	614.5	120.0
Manufacturing	**14,975.8**	**14,944.9**	**17,304.5**	**-30.9**	**-0.2**	**2,359.5**	**15.8**
- *of which*							
Export Enterprise Certificate Holders	6,820.5	6,548.0	8,152.6	-272.5	-4.0	1,604.6	24.5
Export Service Certificate Holders	252.0	275.6	301.2	23.6	9.4	25.6	9.3
Pioneer Status Certificate Holders	261.7	213.1	122.3	-48.6	-18.6	-90.8	-42.6
Small and Medium Enterprise Certificate Holders	89.0	107.2	110.6	18.1	20.4	3.5	3.2
Strategic Local Enterprise Certificate Holders	0.0	0.0	1.8	0.0	0.0	1.8	0.0
Furniture & Wood Products	406.8	451.6	435.8	44.8	11.0	-15.8	-3.5
Printing & Publishing	854.1	713.8	614.6	-140.3	-16.4	-99.2	-13.9
Steel/Metal Products	395.0	394.1	449.4	-0.9	-0.2	55.3	14.0
Food & Beverages	2,779.2	2,761.0	3,418.6	-18.2	-0.7	657.7	23.8
Plastic Products	172.6	192.4	150.5	19.8	11.5	-41.9	-21.8
Pharmaceuticals & Health Care	69.4	119.0	166.3	49.6	71.5	47.3	39.7
Jewellery & Precision Engineering	164.5	158.7	240.5	-5.8	-3.5	81.8	51.6
Electronics	89.5	118.3	69.2	28.8	32.2	-49.1	-41.5
Leather Products & Footwear	52.9	74.0	80.8	21.1	39.9	6.8	9.2
Paints	131.1	198.6	198.9	67.5	51.5	0.3	0.2
Cement	41.8	117.0	117.9	75.2	179.8	0.9	0.7
Other	2,395.8	2,502.6	2,673.6	106.8	4.5	171.0	6.8
Tourism	**15,340.5**	**17,882.8**	**24,037.6**	**2,542.3**	**16.6**	**6,154.8**	**34.4**
- *of which*							
Hotels	6,742.9	9,077.0	13,628.7	2,334.1	34.6	4,551.7	50.1
Tour Operators & Travel Agents	497.2	466.6	528.9	-30.6	-6.2	62.2	13.3
Hotel Development Certificate Holders	802.3	1,062.5	897.7	260.2	32.4	-164.8	-15.5
Hotel Management Service Certificate Holders	6,381.2	6,511.3	7,858.4	130.1	2.0	1,347.1	20.7
Restaurants	240.5	232.9	252.6	-7.5	-3.1	19.6	8.4
Duty-Free Shops	11.8	16.8	54.2	5.0	41.9	37.5	223.3
Other	664.5	515.5	817.1	-149.0	-22.4	301.5	58.5
Transport	**1,681.5**	**1,771.6**	**955.7**	**90.2**	**5.4**	**-815.9**	**-46.1**
- *of which*							
Airlines	126.4	114.0	15.8	-12.5	-9.9	-98.2	-86.1
Buses, Lorries, Trucks & Cars	530.1	507.5	494.1	-22.6	-4.3	-13.4	-2.6
Shipping & Freight Forwarders	908.9	1,011.8	221.2	102.9	11.3	-790.6	-78.1
Other	116.1	138.4	224.6	22.3	19.2	86.3	62.3
Construction	**19,474.9**	**22,917.1**	**29,957.0**	**3,442.2**	**17.7**	**7,039.9**	**30.7**
- *of which*							
Building & Housing Contractors	1,574.8	1,540.4	1,587.8	-34.4	-2.2	47.3	3.1
Property Development - Commercial	1,422.7	1,881.8	4,165.1	459.0	32.3	2,283.3	121.3
Property Development - Residential	373.3	1,156.8	2,653.7	783.5	209.9	1,496.8	129.4
Property Development - Land Parcelling	149.1	161.8	233.3	12.7	8.5	71.5	44.2
Housing	13,273.5	14,867.7	17,189.5	1,594.2	12.0	2,321.8	15.6
Housing - Staff	961.7	1,099.0	1,426.1	137.2	14.3	327.1	29.8
Housing Development Certificate Holders	5.3	8.4	4.5	3.1	57.4	-3.9	-46.0
Industrial Building Enterprise Certificate Holders	289.7	292.3	505.9	2.6	0.9	213.6	73.1
Building Supplies & Materials	0.4	67.3	216.1	66.9	0.0	148.8	0.0
Stone Crushing and Concrete Products	693.4	928.6	598.4	235.2	33.9	-330.2	-35.6
Other	730.8	913.0	1,376.8	182.2	24.9	463.8	50.8

Table III.7: Sectorwise Distribution of Credit to the Private Sector (cont)

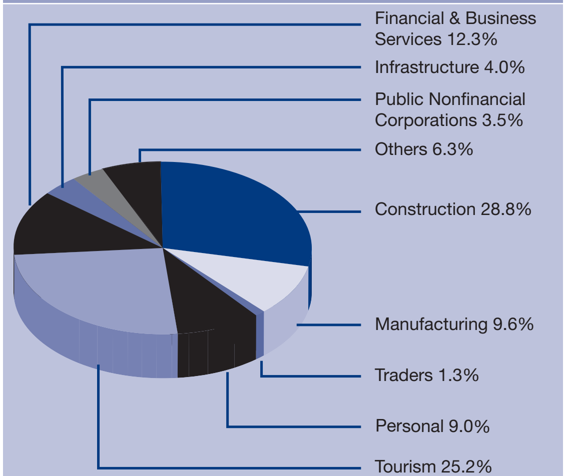
Sectors	Jun-06 (1) (Rs Mn)	Jun-07 (2) (Rs Mn)	Jun-08 (3) (Rs Mn)	Change between (1) and (2) (Rs Mn)	Per cent	Change between (2) and (3) (Rs Mn)	Per cent
Traders	**17,712.5**	**19,736.4**	**20,053.9**	**2,023.9**	**11.4**	**317.4**	**1.6**
- of which							
Marketing Companies	0.1	0.0	65.9	0.0	0.0	65.9	0.0
Wholesalers	4,963.6	5,163.7	5,288.4	200.1	4.0	124.7	2.4
Retailers - Hypermarkets	314.9	305.7	33.5	-9.2	-2.9	-272.2	-89.0
Retailers - Supermarkets	889.1	833.8	494.4	-55.3	-6.2	-339.4	-40.7
Retailers - Shops & Snacks	175.0	179.8	739.9	4.9	2.8	560.1	311.5
Retailers - Pharmaceuticals and Chemists	215.9	224.0	175.2	8.1	3.7	-48.8	-21.8
Retailers - Others	3,029.3	3,042.3	3,197.7	13.0	0.4	155.4	5.1
Automobile Dealers & Garages	1,340.6	1,585.7	2,008.5	245.1	18.3	422.9	26.7
Petroleum and Energy Products	620.2	750.5	737.9	130.3	21.0	-12.7	-1.7
Tyre Dealers and Suppliers	8.5	4.2	17.7	-4.3	-50.3	13.5	318.5
Other	6,155.4	7,646.6	7,294.7	1,491.1	24.2	-351.9	-4.6
Information Communication and Technology	**492.2**	**599.2**	**924.9**	**107.0**	**21.7**	**325.7**	**54.4**
- of which							
Telecommunications	179.8	179.7	239.9	-0.1	0.0	60.2	33.5
Internet	93.6	221.8	228.8	128.3	137.0	7.0	3.1
E-Commerce	3.3	2.1	226.6	-1.2	-36.6	224.5	10,588.1
Information Technology - Hardware	76.0	53.7	53.4	-22.3	-29.4	-0.3	-0.5
Information Technology - Software	91.0	88.4	84.2	-2.6	-2.9	-4.2	-4.8
Personal Computers	13.9	7.5	18.7	-6.4	-46.3	11.2	150.7
Other	34.6	46.0	73.4	11.5	33.1	27.3	59.3
Financial and Business Services	**13,343.7**	**15,812.7**	**18,819.7**	**2,469.0**	**18.5**	**3,006.9**	**19.0**
- of which							
Stockbrokers & Stockbroking Companies	14.9	12.7	19.3	-2.2	-14.7	6.7	52.4
Insurance Companies	181.6	453.1	415.7	271.5	149.5	-37.4	-8.2
Non-bank Deposit-Taking Institutions	3,583.5	4,476.5	2,879.4	893.0	24.9	-1,597.1	-35.7
Mutual Funds	21.9	6.5	85.0	-15.4	-70.3	78.5	1,207.3
Accounting & Consultancy Services	282.0	317.0	378.6	34.9	12.4	61.6	19.4
Investment Companies	734.7	1,855.4	4,989.9	1,120.7	152.5	3,134.5	168.9
Public Financial Corporations	2,338.9	875.2	739.9	-1,463.7	-62.6	-135.4	-15.5
Other	6,186.1	7,816.3	9,311.8	1,630.2	26.4	1,495.4	19.1
Infrastructure	**2,832.8**	**4,136.7**	**5,124.9**	**1,303.9**	**46.0**	**988.3**	**23.9**
- of which							
Airport Development	0.4	2.7	25.4	2.3	510.9	22.7	845.4
Port Development	0.0	0.0	0.8	0.0	-100.0	0.8	0.0
Power Generation	2,786.5	4,075.1	5,004.8	1,288.6	46.2	929.7	22.8
Water Development	7.2	13.0	7.6	5.7	79.2	-5.4	-41.8
Road Development	0.4	0.0	0.0	-0.4	-94.3	0.0	23.2
Other	38.2	45.9	86.3	7.7	20.2	40.4	88.0
State and Local Government	**79.7**	**95.1**	**47.7**	**15.5**	**19.4**	**-47.4**	**-49.8**
Public Nonfinancial Corporations	**8,938.3**	**6,904.1**	**7,768.1**	**-2,034.2**	**-22.8**	**864.0**	**12.5**
Regional Development Certificate Holders	**0.0**	**0.0**	**0.5**	**0.0**	**0.0**	**0.5**	**0.0**
Regional Headquarters Certificate Holders	**0.0**	**0.5**	**0.5**	**0.5**	**0.0**	**0.0**	**0.0**
Freeport Enterprise Certificate Holders	**355.9**	**320.2**	**488.4**	**-35.7**	**-10.0**	**168.1**	**52.5**
Health Development Certificate Holders	**27.7**	**64.4**	**72.0**	**36.7**	**132.7**	**7.6**	**11.8**
Modernisation & Expansion Enterprise Cert Holders	**0.0**	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**
Personal	**11,342.4**	**13,683.2**	**15,887.4**	**2,340.9**	**20.6**	**2,204.2**	**16.1**
Professional	**600.5**	**628.1**	**805.3**	**27.6**	**4.6**	**177.1**	**28.2**
Education	**393.2**	**466.4**	**499.3**	**73.2**	**18.6**	**32.9**	**7.0**
Human Resource Development Certificate Holders	**0.0**	**0.1**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**
Media, Entertainment and Recreational Activities	**255.8**	**376.7**	**1,013.9**	**120.9**	**47.3**	**637.2**	**169.1**
Other	**3,779.7**	**4,188.7**	**2,837.6**	**409.0**	**10.8**	**-1,351.1**	**-32.3**
Total	**119,471.4**	**131,381.0**	**155,847.0**	**11,909.6**	**10.0**	**24,466.0**	**18.6**

Source: Statistics Division.

cent at the end of June 2008, marginally lower than the share of 0.8 per cent at the end of June 2007. Bills Receivable grew by Rs549 million, or 24.6 per cent to Rs2,776 million compared to a fall of 5.3 per cent registered in 2006-07. Their share in total credit was 1.8 per cent at the end of June 2008 compared to 1.7 per cent at the end of June 2007. Banks' investment in shares and debentures edged down by 10.3 per cent, from Rs8,901 million at the end of June 2007 to Rs7,985 million at the end of June 2008, compared to an increase of 10.6 per cent in the preceding fiscal year. As a percentage of total credit, they represented 5.1 per cent as at end-June 2008, lower than the share of 6.8 per cent as at end-June 2007.

Chart III.1 shows the sectorwise contribution to the increase in credit to the private sector by banks in 2007-08. Table III.7 gives the breakdown of the sectorwise distribution of credit to the private sector by banks as at end-June 2006, end-June 2007 and end-June 2008.

Chart III.1: Sectorwise Contribution to the Increase in Credit to the Private Sector by Banks in June 07- June 08



Source: Statistics Division

Maintenance of Cash Ratio

In 2007-08, the minimum two-week average cash ratio that banks were required to maintain remained unchanged at 4.0 per cent of their average deposits liabilities held over the two-week period preceding the maintenance period. Furthermore, on any particular day during the maintenance period, the minimum cash reserve ratio was not to fall below 2.0 per cent of average deposit liabilities. The minimum cash balances held by banks consist exclusively of balances held by banks with the Bank of Mauritius.

The average cash balances held by banks at the Bank of Mauritius was in the range of Rs8.8-11.4 billion in 2007-08, higher than the

Table III.8: Average Cash Ratio Maintained by Banks

	Average Cash Balances Held	Average Excess/ (Shortfall) Cash Balances	Average Cash Ratio
	(Rs million)		(Per cent)
2006-07			
Jul-Sep	7,051 - 9,014	67 - 2,568	4.04 - 5.59
Oct-18 Jan	7,165 - 8,583	132 - 1,423	4.07 - 4.79
01 Feb*-Mar	7,636 - 8,492	435 - 1,226	4.24 - 4.67
Apr-Jun	7,972 - 8,893	615 - 1,444	4.33 - 4.78
2006-07	**7,051 - 9,014**	**67 - 2,568**	**4.04 - 5.59**
2007-08			
Jul-Sep	8,800 - 9,634	1,210 - 1,982	4.64 - 5.06
Oct-Dec	9,535 - 11,155	1,505 - 3,406	4.75 - 5.76
Jan-Mar	9,449 - 11,357	926 - 2,926	4.43 - 5.39
Apr-Jun	9,848 - 10,956	1,276 - 2,145	4.60 - 4.98
2007-08	**8,800 - 11,357**	**926 - 3,406**	**4.43 - 5.76**

Cash balances consist exclusively of balances held with the Bank of Mauritius.
** The maintenance period for cash reserve ratio was lengthened from one week to two weeks as from 19 January 2007.*
Source: Statistics Division.

range of Rs7.1-9.0 billion in 2006-07. Similarly, the average excess reserves held by banks were higher in the range of Rs0.9-3.4 billion during the period under review compared to Rs0.07-2.6 billion in 2006-07. Hence, the average cash ratio stood in the range of 4.43-5.76 per cent in 2007-08 compared to 4.04-5.59 per cent in the previous fiscal year.

Table III.8 gives details of the average cash ratio maintained by banks in 2006-07 and 2007-08.

INTEREST RATES

During 2007-08, banks in general adjusted their interest rate structure more or less in line with the changes in the key Repo Rate, which was raised once and cut three times. Banks however adjusted their deposits and lending rates to various degrees. In fact, the key Repo Rate was hiked by 75 basis points to 9.25 per cent on 2 July 2007, but was reduced by 25 basis points to 9.00 per cent on 6 February 2008, by another 50 basis points to 8.50 per cent on 24 March 2008 and by a further 50 basis points to 8.00 per cent on 2 May 2008.

Thus, at the end of July 2007, the Prime Lending Rate (PLR) of banks stood in the range of 11.25-12.25 per cent from 10.70-11.75 per cent in the previous month. But with the first cut in the key Repo Rate in February 2008, the PLR of banks went down to a range of 11.15-12.00 per cent. Following the cut on 24 March 2008, banks adjusted their PLR further downward to a range of 10.65-11.75 per cent. By the end of May 2008, their PLR was in the range of 10.15-11.50 per cent and that range prevailed until the end of fiscal year 2007-08.

The savings deposit rate (SDR) of banks went up from a range of 7.20-7.60 per cent in June 2007 to 8.00-8.60 per cent in July 2007. Banks' SDR remained within that range until February 2008 when the SDR range went down to 7.75-8.25 per cent. By end-March 2008, banks' SDR came down further to a range of 7.00-7.75 per cent amid another 50-basis points rate cut in the key Repo Rate. The SDR fell further to 6.25-7.25 per cent by the end of May 2008 and remained unchanged until end-June 2008.

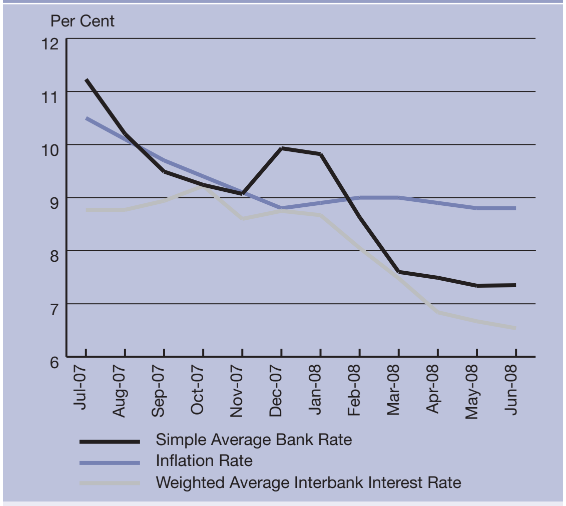
The modal PLR went up from 11.00 per cent in June 2007 to 11.75 per cent in July 2007, but went down to 11.50 per cent, to 11.00 per cent and to 10.50 per cent at the end of February, March and May 2008, respectively. The modal SDR increased from 7.50 per cent

Table III.9: Other Interest Rates *(Per cent per annum)*

	Weighted Average Yield on Bills Accepted at Primary Auctions	Simple Average Bank Rate	Weighted Average Interbank Interest Rate	Prime Lending Rate	Interest Rates on Rupee Savings Deposits with Banks	Interest Rates on Rupee Term Deposits with Banks	Interest Rates on Rupee Loans and Advances by Banks	Weighted Average Rupee Term Deposits Rate of Banks	Weighted Average Rupee Lending Rate of Banks
2007									
Jul	11.29	11.23	8.77	11.25-12.25	8.00-8.60	4.63-14.75	6.25-24.25	7.79	12.73
Aug	10.03	10.20	8.77	11.25-12.25	8.00-8.60	4.63-14.75	6.25-23.00	7.88	12.76
Sep	9.45	9.49	8.94	11.25-12.25	8.00-8.60	4.63-14.75	6.25-22.75	7.79	12.72
Oct	9.14	9.24	9.22	11.40-12.25	8.00-8.60	4.63-16.00	6.25-22.73	7.72	12.77
Nov	9.16	9.07	8.60	11.40-12.25	8.00-8.60	4.63-15.00	6.25-22.75	7.72	12.82
Dec	10.03	9.93	8.75	11.40-12.25	8.00-8.60	4.63-15.00	6.25-22.75	7.43	12.84
2008									
Jan	9.85	9.82	8.67	11.40-12.25	8.00-8.60	4.63-14.75	6.25-22.75	7.58	13.03
Feb	8.26	8.63	8.05	11.15-12.00	7.75-8.25	4.63-15.00	6.25-22.57	7.36	12.87
Mar	7.51	7.60	7.48	10.65-11.75	7.00-7.75	4.63-15.00	6.50-22.56	7.08	12.46
Apr	7.56	7.49	6.84	10.65-11.75	6.75-7.75	4.63-15.00	6.00-22.38	6.91	12.49
May	7.33	7.34	6.67	10.15-11.50	6.25-7.25	4.63-15.00	6.00-21.78	6.54	12.03
Jun	7.37	7.35	6.54	10.15-11.50	6.25-7.25	4.75-15.00	6.00-21.80	6.40	12.03

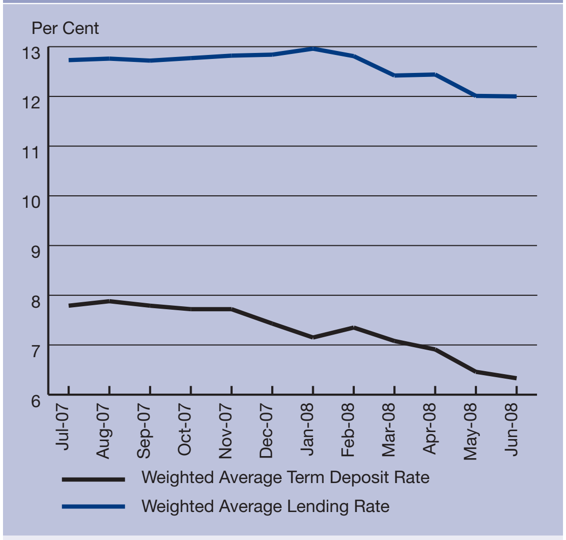
Source: Statistics Division.

Chart III.2: Simple Average Bank Rate, Weighted Average Interbank Interest Rate and Inflation Rate



Source: Statistics Division

Chart III.3 : Weighted Average Rupee Lending and Deposits Rates



Source: Statistics Division

in June 2007 to 8.25 per cent in July 2007 but declined to 8.00 per cent, to 7.50 per cent and to 6.75 per cent by the end of February, March and May 2008, respectively. Banks' modal PLR and SDR stood at 10.50 per cent and 6.75 per cent, respectively, at the end of June 2008.

The weighted average rupee lending rate of banks dropped from 12.35 per cent in June 2007 to 12.03 per cent in June 2008, while the weighted average rupee deposits rate fell from 7.21 per cent to 6.40 per cent. The spread between them varied between 4.88 and 5.63 percentage points in 2007-08 compared to a range of 4.96-5.29 percentage points in 2006-07.

The real rate of interest on savings deposits narrowed during the fiscal year 2007-08, from negative 2.89 percentage points at the end of June 2007 to negative 1.88 percentage points at the end of June 2008.

Table III.9 gives details of the interest rate structure of the banking sector, while Chart III.2 shows the movements in the rate of inflation, the simple average Bank Rate and the weighted average interbank interest rate during 2007-08.

Chart III.3 shows the movements in the weighted average lending rate and the weighted average deposits rate during 2007-08.

OTHER FINANCIAL CORPORATIONS

Development Bank of Mauritius Ltd (DBM)

Total assets of the DBM fell by Rs291 million, or 3.4 per cent, from Rs8,466 million at the end of June 2007 to Rs8,175 million at the end of June 2008. Equity holdings of the DBM fell up by Rs243 million, or 23.8 per cent, from Rs1,019 million at the end of June 2007 to Rs776 million at the end of June 2008. Total loans disbursed by the DBM decreased by Rs148 million, or 13.9 per cent, from Rs1,064 million at the end of June 2007 to Rs916 million at the end of June 2008.

National Pensions Fund (NPF)

The total investment portfolio of the National Pensions Fund (NPF) increased by Rs4.2 billion, or 10.2 per cent, from Rs41.2 billion at the end of June 2007 to Rs45.4 billion at the end of June 2008. Over the same period, its investments in Government Securities, Treasury Bills and Bank of Mauritius Bills fell by Rs0.6 billion, or 2.2 per cent, from Rs27.1 billion to Rs26.5 billion. Total loans outstanding fell by Rs0.2 billion, or 15.4 per cent to Rs1.1 billion at the end of June 2008.

IV. GOVERNMENT FINANCE

Government revenue during fiscal year 2007-08 remained buoyant and was higher than budgeted despite the reduction in upper tax bracket to a flat rate of 15 per cent for both Individual Income Tax and Corporate Tax. Government expenditure, on the other hand, was contained. However, it is worth noting that a Supplementary Expenditure for 2007-08 was voted at the National Assembly in June 2008 to cater for developments in certain sectors and to address issues like local infrastructure, food security, 'Maurice Ile durable', and education and knowledge. Nonetheless, the budget deficit came down to Rs8,321 million for 2007-08 as against the budgeted figure of Rs9,554 million. The budget deficit to GDP ratio has dropped for the second consecutive year, reaching 3.3 per cent in 2007-08 against the budgetary estimate of 3.8 per cent and from 4.3 per cent a year earlier. The financing of the budget deficit in 2007-08 came exclusively from domestic sources with a contribution of Rs8,561 million while net foreign financing was negative at Rs240 million.

Total public debt, consisting of internal and external public debt, rose slightly from Rs122,120 million at the end of June 2007 to Rs122,287 million at the end of June 2008. As a percentage of GDP at market prices, total public debt declined from 55.7 per cent at the end of June 2007 to 48.6 per cent at the end of June 2008. Total internal public debt increased from Rs108,668 million at the end of June 2007 to Rs109,836 million at the end of June 2008. Total internal public debt increased by 1.1 per cent, from Rs108,668 million at the end of June 2007 to Rs109,836 million at the end of June 2008, lower than the rise of 3.7 per cent registered in 2006-07. Effective 3 July 2007, the Consolidated Sinking Fund was abolished, implying a reduction in internal public debt to the tune of Rs5.8 billion. Meanwhile, Government continued with its policy of lengthening the maturity profile of its domestic debt by issuing higher amounts of medium- and long-term Government Securities during the fiscal year. Thus, between end-June 2006 and end-June 2008, the share of medium- and long-term internal debt in total internal public debt rose threefold to nearly 66.7 per cent. Interest payments on internal and external public debt increased from Rs8,883 million in 2006-07 to Rs10,675 million in 2007-08.

REVENUE AND GRANTS

Total derived revenue and grants went up by 26.2 per cent, from Rs42,169 million in 2006-07 to Rs53,222 million in 2007-08 compared to an increase of 7.5 per cent in the preceding fiscal year. As a percentage of GDP at market prices, total derived revenue and grants increased from 19.3 per cent in 2006-07 to 21.2 per cent in 2007-08. The rise in tax revenue accounted for nearly 88.3 per cent of the increase in total derived revenue. However, as a percentage of total derived revenue, the share of tax revenue declined from 91.3 per cent in 2006-07 to 90.6 per cent in 2007-08. Conversely, the share of non-tax revenue rose from 8.7 per cent to 9.4 per cent over the same period.

Tax revenue went up from Rs38,186 million in 2006-07 to Rs47,831 million in 2007-08, representing an increase of 25.3 per cent compared to the rise of 7.9 per cent recorded in the previous fiscal year. The increase in tax revenue was essentially driven by increases in revenue from Value Added Tax, Taxes on Property, Individual Income Tax and Excise Duties. The buoyancy of tax revenue with respect to GDP at market prices was 1.7 in 2007-08 compared to 0.6 in 2006-07.

Taxes on Goods and Services rose by 19.6 per cent, from Rs25,545 million in 2006-07 to Rs30,545 million in 2007-08. As a percentage of tax revenue, the share of Taxes on Goods and Services fell from 66.9 per cent in 2006-07 to 63.9 per cent in 2007-08. The buoyancy of Taxes on Goods and Services with respect to GDP at market prices stood at 1.3 in 2007-08, down from 2.9 recorded in 2006-07. Value-Added Tax (VAT) remained the largest source of government revenue with a share of 38.8 per cent of tax revenue in 2007-08, although down from 40.5 per cent in the previous fiscal year. Net revenue from VAT amounted to Rs18,542 million in 2007-08, representing an increase of 19.9 per cent compared to 2006-07. The buoyancy of VAT with respect to GDP at market prices was 1.3 in 2007-08 compared to 1.0 in

2006-07. Excise duties rose by 14.8 per cent, from Rs7,140 million in 2006-07 to Rs8,198 million in 2007-08. The buoyancy of excise duties with respect to GDP at market prices recovered to 1.0 in 2007-08 from 0.6 in 2006-07. Customs duty increased by 22.6 per cent, from Rs2,158 million in 2006-07 to Rs2,646 million in 2007-08. However, as a percentage of tax revenue, the share of customs duty fell from 5.7 per cent in 2006-07 to 5.5 per cent in 2007-08. Taxes on Services went up from Rs1,963 million in 2006-07 to Rs2,687 million

Table IV.1: Classification of Government Revenue and Grants *(Rs million)*

REVENUE AND GRANTS	2005-06 Actual	2006-07 Actual	2007-08 Actual
1. Tax Revenue	**35,381.5**	**38,185.9**	**47,831.4**
Taxes on Income, Profits and Capital Gains	**7,468.9**	**7,607.6**	**10,558.2**
	21.1	*19.9*	*22.1*
Individual Income Tax	2,767.9	2,332.3	3,405.7
	7.8	*6.1*	*7.1*
National Residential Property Tax			118.7
			0.2
Tax Deduction at Source			797.4
			1.7
Corporate Tax	4,701.0	5,275.3	6,236.4
	13.3	*13.8*	*13.0*
Taxes on Property	**1,939.5**	**2,798.5**	**4,003.0**
	5.5	*7.3*	*8.4*
Land and Real Estate	537.5	968.3	1,569.8
	1.5	*2.5*	*3.3*
Financial Transactions	1,402.0	1,830.2	2,433.2
	4.0	*4.8*	*5.1*
Taxes on Goods and Services	**25,957.4**	**25,545.0**	**30,544.9**
of which:	*73.4*	*66.9*	*63.9*
(a) Excise Duties	6,617.5	7,140.3	8,198.0
	18.7	*18.7*	*17.1*
(b) Taxes on Services	1,673.6	1,962.5	2,686.8
of which:	*3.8*	*5.1*	*5.6*
(i) Tax on Gambling	1,185.4	1,267.6	1,621.7
	3.4	*3.3*	*3.4*
(ii) Tax on Hotel Bills	488.2	692.5	997.6
	0.4	*1.8*	*2.1*
(iii) Special Levy on Banks			67.5
			0.1
(c) Taxes on Use of Goods	911.1	974.1	1,118.1
	2.6	*2.6*	*2.3*
(d) Value-Added Tax	13,708.6	15,468.1	18,542.0
	38.7	*40.5*	*38.8*
(e) Customs Duty	3,045.7	2,157.8	2,646.2
	8.6	*5.7*	*5.5*
Other Tax Revenue	**15.7**	**77.0**	**79.1**
	0.0	*0.2*	*0.2*
2. Non-Tax Revenue	**3,127.2**	**3,632.3**	**4,912.9**
3. Capital Revenue	**221.7**	**28.7**	**23.2**
4. Total Derived Revenue	**38,730.4**	**41,846.9**	**52,767.5**
5. Grants	**489.2**	**321.9**	**454.1**
6. Total Derived Revenue and Grants	**39,219.6**	**42,168.8**	**53,221.6**
7. Total Derived Revenue and Grants as a % of GDP	**20.0**	**19.2**	**21.2**

Figures in italics are percentages of Tax Revenue.
Source: Ministry of Finance and Economic Empowerment, Government of Mauritius.

in 2007-08. The "Special Levy on Banks", which was introduced in the 2007-08 Budget, contributed Rs68 million to tax revenue.

Taxes on Income, Profits and Capital gains went up by 38.8 per cent, from Rs7,608 million in 2006-07 to Rs10,558 million in 2007-08. As a percentage of tax revenue, the share of Taxes on Income, Profits and Capital Gains went up from 19.9 per cent in 2006-07 to 22.1 per cent in 2007-08. Despite the reduction in the upper tax rate, from 20.0 per cent and 22.5 per cent for individual income tax and corporate tax, respectively, to a single flat rate of 15.0 per cent as from July 2007, revenue collected from these taxes rose. Individual Income Tax went up by 46.0 per cent to Rs3,406 million in 2007-08 while Corporate Tax rose by 18.2 per cent to Rs6,236 million. The buoyancy of Individual Income Tax with respect to GDP at market prices, which stood at -1.3 in 2006-07, recovered to stand at 3.1 in 2007-08 while that of Corporate Tax went up from 1.0 to 1.2 over the same period. The National Residential Property Tax and "Tax Deduction at Source", which were both introduced as from July 2007, brought revenue amounting to Rs119 million and Rs797 million, respectively, in 2007-08.

Taxes on Property increased by 43.0 per cent, from Rs2,799 million in 2006-07 to Rs4,003 million in 2007-08. As a percentage of Tax revenue, the share of Taxes on Property was higher at 8.4 per cent in 2007-08 compared to 7.3 per cent in 2006-07. The buoyancy of Taxes on Property with respect to GDP at market prices stood at 2.9 in 2007-08 from 3.6 in 2006-07. Revenue from Taxes on Land and Real Estate was sustained, rising by 62.1 per cent in 2007-08 compared to a growth of 80.1 per cent in the previous fiscal year. Similarly, revenue from Taxes on Financial Transactions on Property continued to rise, going up by a hefty 32.9 per cent in 2007-08 following the growth of 30.5 per cent recorded in 2006-07.

Other Tax revenue edged up from Rs77 million in 2006-07 to Rs79 million in 2007-08. Grants received by Government went up from Rs322 million in 2006-07 to Rs454 million in 2007-08.

Table IV.1 gives details on Government revenue and grants for the years 2005-06 through 2007-08.

EXPENDITURE AND LENDING MINUS REPAYMENTS

Total derived expenditure and lending minus repayments went up from Rs51,608 million in 2006-07 to Rs61,543 million in 2007-08, or 19.3 per cent, much higher than the increase of 4.1 per cent in the previous fiscal year. As a percentage of GDP at market prices, total derived expenditure and lending minus repayments increased from 23.6 per cent in 2006-07 to 24.5 per cent in 2007-08.

Current expenditure grew by 9.7 per cent, from Rs44,122 million in 2006-07 to Rs48,423 million in 2007-08. Capital expenditure went up by Rs4,571 million in 2007-08 while lending minus repayments increased by Rs1,062 million. As a percentage of total derived expenditure, current expenditure moved down from 86.1 per cent in 2006-07 to 80.6 per cent in 2007-08. Conversely, the share of capital expenditure increased from 13.9 per cent in 2006-07 to 19.4 per cent in 2007-08.

Current transfers and subsidies went up by 10.1 per cent to Rs20,779 million in 2007-08, much higher than the increase of 5.7 per cent registered in 2006-07. It remained the largest single item of current expenditure with a share of 42.9 per cent in 2007-08, virtually unchanged from the 42.8 per cent recorded in 2006-07. In June 2008, a Supplementary Expenditure, classified under current transfers, for fiscal year 2007-08 was voted at the National Assembly to cater for developments in certain sectors and also to address issues like local infrastructure, food security, 'Maurice Ile durable', and education and knowledge.

Expenditure on goods and services went up by 3.6 per cent, from Rs16,375 million in 2006-07 to Rs16,969 million in 2007-08, in contrast to a decrease of 2.1 per cent in 2006-07. Expenditure on wages and salaries increased by Rs437 million in 2007-08 and, as a percentage of current expenditure, it declined to 26.2 per cent from 27.8 per cent in 2006-07. Expenditure on 'Other goods and services' rose from Rs4,112 million in 2006-07 to Rs4,269 million in 2007-08 and, as a percentage of current expenditure, it stood at 8.8 per cent, down from 9.3 per cent in the previous fiscal year.

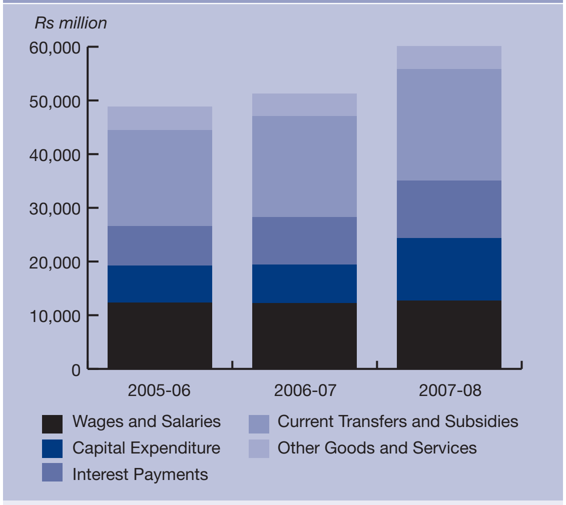
Interest payments on both local and

external loans went up by 20.2 per cent to Rs10,675 million in 2007-08. Interest payments on domestic loans went up by Rs1,739 million to Rs10,355 million in 2007-08. Interest payments on external loans increased by Rs54 million to Rs321 million in 2007-08. As a percentage of current expenditure, total interest payments widened from 20.1 per cent in 2006-07 to 22.0 per cent in 2007-08.

Capital expenditure rose by 64.3 per cent to Rs11,682 million in 2007-08 compared to an increase of 2.2 per cent in 2006-07. As a percentage of total derived expenditure, acquisition of fixed capital assets registered a slight decrease, from 7.2 per cent in 2006-07 to 7.1 per cent in 2007-08. Capital Transfers rose from Rs3,247 million in 2006-07 to Rs7,144 million in 2007-08.

Table IV.2 shows the distribution of

Chart IV.1: Composition of Government Expenditure



Source: Ministry of Finance and Economic Empowerment, Government of Mauritius.

Table IV.2: Distribution of Government Expenditure *(Rs million)*

	2005-06 Actual	2006-07 Actual	2007-08 Actual
1. Current Expenditure	**41,915.3**	**44,122.2**	**48,423.3**
Expenditure on Goods and Services	16,721.2	16,375.2	16,969.4
	39.9	*37.1*	*35.0*
(a) Wages and Salaries [1]	12,301.1	12,263.4	12,700.0
	29.3	*27.8*	*26.2*
(b) Other Goods and Services	4,420.1	4,111.8	4,269.4
	10.5	*9.3*	*8.8*
Interest Payments	7,354.7	8,882.5	10,675.2
	17.5	*20.1*	*22.0*
(a) External	268.9	266.8	320.7
	0.6	*0.6*	*0.7*
(b) Domestic	7,085.8	8,615.7	10,354.5
	16.9	*19.5*	*21.4*
Current Transfers and Subsidies	17,839.4	18,864.5	20,778.7
	42.6	*42.8*	*42.9*
2. Capital Expenditure	**6,959.9**	**7,110.9**	**11,682.3**
of which:			
(a) Acquisition of Fixed Capital Assets	4,162.1	3,710.3	4,268.8
	59.8	*52.2*	*36.5*
(b) Capital Transfers	2,650.1	3,246.9	7,143.8
	38.1	*45.7*	*61.2*
3. Total Derived Expenditure	**48,875.2**	**51,233.1**	**60,105.6**
4. Lending Minus Repayments	**688.9**	**374.9**	**1,437.1**
5. Total Derived Expenditure and Lending Minus Repayments	**49,564.1**	**51,608.0**	**61,542.7**
6. Total Derived Expenditure and Lending Minus Repayments as a % of GDP	**25.3**	**23.5**	**24.5**

[1] Include Travelling and Transport.
Figures in italics are percentages of Current Expenditure (for sub-items of 1) and Capital Expenditure (for sub-items of 2) .
Figures may not add up to totals due to rounding.
Source: Ministry of Finance and Economic Empowerment, Government of Mauritius.

government expenditure for the years 2005-06 through 2007-08. Charts IV.1 shows the composition of government expenditure for the years 2005-06 through 2007-08.

BUDGETARY OPERATIONS AND FINANCING OF THE DEFICIT

The budget deficit in 2007-08 amounted to Rs8,321 million, down from Rs9,439 million in the previous year. The budget deficit as a percentage of GDP at market prices declined from 4.3 per cent in 2006-07 to 3.3 per cent in 2007-08. The budget deficit for 2007-08 was exclusively financed from domestic sources. Domestic financing amounted to Rs8,561 million and came exclusively from the banks with a contribution of Rs14,539 million. Central bank financing of the budget deficit was negative at Rs3,883 million while the non-bank sector contributed a negative amount of Rs5,629 million. Net foreign financing of the budget deficit amounted to negative Rs240 million, reflecting a combined effect of the net disinvestment in Government Securities by nonresidents that was only partly offset by the increase in gross external loans received net of capital repayments. Investment by nonresidents in Government Securities fell by Rs1,742 million in 2007-08. Gross external loans received by the Government amounted to Rs2,422 million while foreign capital repayments stood at Rs920 million in 2007-08.

Table IV.3: Budgetary Operations and Financing *(Rs million)*

	2005-06 Actual	2006-07 Actual	2007-08 Actual
1. Total Derived Revenue and Grants	**39,219.6**	**42,168.8**	**53,221.6**
2. Total Derived Expenditure and Lending Minus Repayments	**49,564.1**	**51,608.0**	**61,542.7**
3. Budget Deficit (1-2)	**-10,344.5**	**-9,439.2**	**-8,321.1**
4. Foreign Financing (Net) (a+b-c)	**-1,149.1**	**4,465.2**	**-239.6**
(a) Gross External Loans Received (excluding IMF)	496.2	2,547.7	2,422.1
(b) Foreign Investment in Government Securities	-325.9	2,887.7	-1,741.6
(c) Foreign Capital Repayments	1,319.4	970.2	920.1
5. Domestic Financing (Net) (A+B+C+D)	**11,493.6**	**4,974.0**	**8,560.7**
A. Monetary Authorities (a+b+c-d)	837.7	-2,043.0	-3,882.5
(a) Government Stocks	0.7	6.7	-0.9
(b) Treasury Bills	690.9	-3,132.9	-126.2
(c) Advances	0.0	0.0	0.0
(d) Treasury Notes	0.0	0.0	95.3
(e) Deposits	-146.1	-1,083.1	3,850.7
B. Banks (a+b+c+d+e-f)	3,745.4	-3,773.2	14,538.8
(a) Government Stocks	255.8	-156.7	1,465.8
(b) Treasury Bills	-430.7	-10,264.4	7,339.0
(c) Advances	0.0	0.0	0.0
(d) Five-Year Government Bonds	820.9	2,044.8	1,194.7
(e) Treasury Notes	3,646.4	4,502.7	4,636.2
(f) Deposits	546.9	-100.4	96.9
C. Non-Bank Sector (a+b+c+d)	7,039.5	10,897.3	-5,628.9
(a) Government Stocks	1,509.7	1,378.4	1,149.6
(b) Treasury Bills	-2,520.1	2,281.1	-10,749.0
(c) Five-Year Government Bonds	2,157.6	938.1	2,222.0
(d) Treasury Notes	5,892.4	6,299.8	1,748.5
D. Other Domestic Financing	-128.9	-107.1	3,533.3
6. Ratio of Budget Deficit to GDP at market prices (Per cent)	**5.3**	**4.3**	**3.3**

Source: Ministry of Finance and Economic Empowerment, Government of Mauritius.
Figures may not add up to totals due to rounding.

In line with the policy of Government of lengthening the maturity profile of its domestic debt, a higher amount of medium- and long-term Government papers, especially Treasury Notes, were issued in 2007-08. As a result, funds stemming from maturing Treasury Bills were mainly channelled by banks and non-bank institutions into medium- and longer-term securities. Thus, in terms of instruments, only medium- and long-term securities were used to finance the budget deficit. The net nominal issue of Treasury Bills amounted to negative Rs7,071 million in 2007-08 while the net issue of Treasury Notes amounted to Rs4,456 million. The net issue of Government of Mauritius Bonds and 5-Year Government of Mauritius Bonds was Rs1,541 million and Rs2,242 million, respectively, in 2007-08.

Table IV.3 shows the financing of the budget deficit by type of debt holder and instrument for the years 2005-06 through 2007-08.

PUBLIC DEBT

Total public debt, consisting of internal and external public debt, registered a slight increase from Rs122,120 million at the end of June 2007 to Rs122,287 million at the end of June 2008. As a percentage of GDP at market prices, total public debt decreased from 55.7 per cent at the end of June 2007 to 48.6 per cent at the end of June 2008.

Internal Debt

Total internal public debt increased by 1.1 per cent, from Rs108,668 million at the end of June 2007 to Rs109,836 million at the end of June 2008, lower than the rise of 3.7 per cent registered in 2006-07. Effective 3 July 2007, the Consolidated Sinking Fund was abolished, implying a reduction in internal public debt to the tune of Rs5.8 billion. Government short-term obligations, made up of Treasury Bills, dropped significantly from Rs43,633 million at the end of June 2007 to Rs36,561 million at the end of June 2008, representing a fall of 16.2 per cent compared to a decline of 21.3 per cent in 2006-07. As a percentage of total internal public debt, Government short-term obligations decreased from 40.2 per cent at the end of June 2007 to 33.3 per cent at the end of June 2008.

Reflecting largely new issues of Treasury Notes, Five-Year Government of Mauritius Bonds and Government of Mauritius Bonds, medium- and long-term obligations of the Government rose by 12.7 per cent, from Rs65,035 million at the end of June 2007 to Rs73,275 million at the end of June 2008. The share of medium- and long-term obligations of the Government in total internal public debt thus grew from 59.8 per cent at the end of June 2007 to 66.7 per cent at the end of June 2008.

External Debt

Total external public debt decreased by Rs1,001 million, from Rs13,452 million at the end of June 2007 to Rs12,451 million at the end of June 2008. Capital repayments, and interest payments and other charges of Government amounted to Rs920 million and Rs329 million, respectively, in 2007-08 compared to Rs970 million and Rs277 million, respectively, in 2006-07. Foreign investment in Government Securities decreased by Rs1,864 million, from Rs3,079 million as at end-June 2007 to Rs1,215 million as at end-June 2008. As a percentage of total public debt, the share of external public debt moved down from 11.0 per cent at the end of June 2007 to 10.2 per cent at the end of June 2008.

The external debt of public enterprises, both government-guaranteed and non-guaranteed, decreased by Rs2,373 million, from Rs11,149 million at the end of June 2007 to Rs8,776 million at the end of June 2008. Capital repayments, and interest payments and other charges totalled Rs2,502 million and Rs478 million, respectively, in 2007-08.

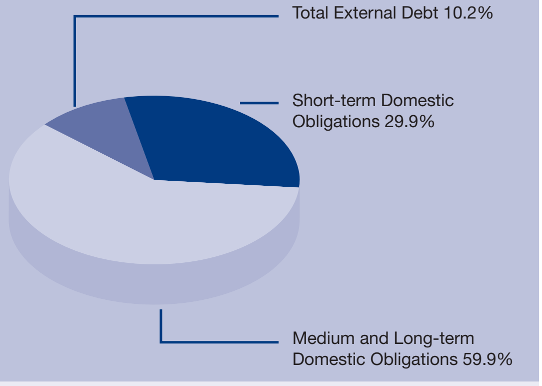
Long-term private sector external debt declined by Rs73 million, from Rs1,562 million at the end of June 2007 to Rs1,489 million at the end of June 2008. Capital repayments amounted to Rs1,004 million in 2007-08 while interest payments totalled Rs8 million.

The total stock of external debt of the Government, public enterprises and the private sector declined by Rs3,447 million, from Rs26,163 million at the end of June 2007 to Rs22,716 million at the end of June 2008.

The debt service ratio of the country, defined as capital repayments and interest payments on total external debt as a percentage of exports of goods and non-factor services, decreased from 5.4 per cent in 2006-07 to 3.7 per cent in 2007-08.

Table IV.4 gives details on public debt from end-June 2006 to end-June 2008. Chart IV.2 shows the composition of public debt as at end-June 2008.

Chart IV.2: Composition of Public Debt as at end-June 2008



Source: Ministry of Finance and Economic Empowerment, Government of Mauritius.

Fiscal Sector Developments: 2008-09

Since 1 July 2008, Government has been compiling and presenting fiscal statistics in accordance with the IMF's Government Finance Statistics (GFS) Manual 2001. The data would not be strictly comparable to data reported under the GFS Manual 1986. This change in methodology is part of a worldwide trend toward greater accountability and transparency in government finances, operations, and oversight. The Programme-Based Budget (PBB) Estimates 2008-2009 was presented at the National Assembly on 6 June 2008 for the 2008-09 Budget Speech. Programme-Based Budgeting (PBB) can be an effective tool in enhancing fiscal discipline, bringing efficiency gains and promoting good governance in the public sector. Under PBB, the budget process involves a careful evaluation of policy priorities, strategic plan and spending proposals of line ministries that allows the Government to consider the necessary trade-offs when having to choose between spending priorities or decide on the sequencing of implementation. This new

Table IV.4: Public Debt *(Rs million)*

OUTSTANDING AS AT END-JUNE	2006	2007	2008
1. Short-term Obligations	**55,473.9**	**43,632.6**	**36,561.4**
(a) Treasury Bills [1]	55,473.9	43,632.6	36,561.4
(b) Advances from Bank of Mauritius	0.0	0.0	0.0
2. Medium and Long-term Obligations	**49,355.1**	**65,035.8**	**73,274.6**
(a) Government Stocks	17,705.8	19,231.3	20,772.7
(b) Five-Year Government of Mauritius Bonds	7,866.3	10,866.3	13,107.8
(c) Treasury Notes	23,782.7	34,937.8	39,393.7
(d) Tax-Reserve Certificates	0.4	0.4	0.4
3. Internal Public Debt (1+2)	**104,829.0**	**108,668.4**	**109,836.0**
4. External Public Debt	**8,535.4**	**13,451.8**	**12,451.0**
(a) Foreign Loans	8,528.5	10,373.4	11,236.1
(b) Foreign Investment in Government Securities	6.9	3,078.4	1,214.9
5. Public Debt (3+4)	**113,364.0**	**122,120.2**	**122,287.0**
6. Public Debt as a % of GDP at market prices	**57.9**	**55.7**	**48.6**
DEBT CHARGES DURING FISCAL YEAR ENDED 30 JUNE	**2006**	**2007**	**2008**
7. Amortisation	**3,383**	**3,352**	**2,584**
(a) Internal	2,063	2,382	1,664
(b) External	1,320	970	920
8. Interest Payments and Other Charges	**7,355**	**8,883**	**10,675**
(a) Internal	7,086	8,616	10,355
(b) External	269	267	321
9. Total Debt Servicing (7+8)	**10,926**	**12,235**	**13,259**

[1] Excluding Treasury Bills held by foreign investors.
Figures may not add up to total due to rounding.
Source: Ministry of Finance and Economic Empowerment, Government of Mauritius.

approach to planning and budgeting ensures the sustainability and improves the efficiency of social and economic spending programmes. A new Public Debt Management Act also came into force in June 2008, which introduced statutory ceilings and targets on public sector debt levels, thus reinforcing fiscal discipline.

According to the PBB Estimates 2009 (July-December), Revenue amounted to Rs60,583 million in 2008-09 and Expense at Rs64,674 million, yielding a Gross Operating Balance of negative Rs4,091 million for Transactions Affecting Net Worth. For Transactions in Non-Financial Assets, Net Acquisition of Non-Financial Assets amounted to Rs6,500 million, consisting essentially of purchase of fixed assets. Hence, net borrowing by Government for 2008-09 was Rs10,591 million, representing 3.9 per cent of GDP at market prices. The net borrowing by Government was reflected in the financial assets and liabilities accounts of the Government. The revised estimates for 2008-09 showed that Net Acquisition of Financial Assets would be positive at Rs1,598 million while Net Incurrence of Liabilities would also be positive at Rs12,189 million. The latter would be reflected in increases in domestic liabilities and foreign liabilities to the tune of Rs8,290 million and Rs3,895 million, respectively.

V. EXTERNAL TRADE AND BALANCE OF PAYMENTS

The current account of the balance of payments worsened further to record a higher deficit of Rs22,224 million in 2007-08 compared to a deficit of Rs17,415 million registered in 2006-07. The significant deterioration of the current account reflected the rising merchandise account deficit, which was partly offset by surpluses recorded on the services, income and current transfers accounts. In relation to GDP, the deficit on the current account represented 8.8 per cent in 2007-08 compared to 8.0 per cent in 2006-07.

The worsening of the merchandise account of the balance of payments has exacerbated in the fiscal year 2007-08, recording a deficit of Rs55,274 million compared to Rs38,008 million in 2006-07. This deterioration essentially resulted from a sharp acceleration in growth of nominal imports as against a decline in nominal exports.

On a balance of payments basis, total imports (f.o.b.) increased by 11.1 per cent, from Rs110,848 million in 2006-07 to Rs123,118 million in 2007-08, driven mostly by higher import bills for 'Mineral fuels, lubricants, & related products' and 'Food and live animals', attributable to the considerable surge in food and energy prices on the world market. Total exports (f.o.b.) decreased by 6.9 per cent, from Rs72,840 million in 2006-07 to Rs67,844 million in 2007-08, largely due to a decline in freeport activity relating to re-export of mobile phones to UAE and a contraction in the exports of Export Oriented Enterprises (EOE), resulting from a slowdown in our main export markets and the appreciation of the local currency.

The capital and financial account, inclusive of reserve assets, recorded net inflows of Rs12,589 million in 2007-08 compared to net inflows of Rs6,212 million in 2006-07. Exclusive of reserve assets, the capital and financial account recorded net inflows of Rs21,699 million in 2007-08 compared to net inflows of Rs12,815 million in 2006-07.

For 2008-09, the deficit in the merchandise account has been projected to stand at Rs47,404 million. The surplus on the services account of the balance of payments is projected to decrease considerably. The surplus in the income account is projected to be nearly halved while the surplus on the current transfers account is projected to rise significantly in fiscal year 2008-09, largely attributable to the EU transfers in the context of its sugar reform. Together, the combined surpluses on the services, income and current transfers accounts would fall short of offsetting the deficit in the merchandise account and as a result, the current account is forecast to record a deficit of Rs20,983 million in 2008-09. In relation to GDP, the deficit on the current account would represent 7.7 per cent in 2008-09.

Table V.1 gives a summary of the balance of payments accounts for the years 2003-04 through 2008-09.

SERVICES, INCOME AND CURRENT TRANSFERS

The surplus on the services account increased by 46.4 per cent, from Rs14,069 million in 2006-07 to Rs20,595 million during the year under review, reflecting mainly the rise in the surplus on the travel account, from Rs24,801 million in 2006-07 to Rs31,100 million in 2007-08, which have offset the deterioration in both the transportation and 'other services' accounts. The number of tourist arrivals to Mauritius grew by 8.2 per cent, from 860,252 in 2006-07 to 930,616 in 2007-08. Gross tourism earnings grew at a slower rate of 18.9 per cent from Rs36,243 million in 2006-07 to a record high of Rs43,105 million in 2007-08, as compared to an expansion of 26.9 per cent registered in 2006-07. The slower growth rate in gross tourism receipts is associated with less favourable growth in our niche markets, higher airfares on account of continuing high oil prices and an appreciation of the rupee. Total visitor nights spent increased from 8,458,000 in 2006-07 to 9,324,000 in 2007-08, while the average length of stay per tourist increased from 9.8 nights in 2006-07 to 9.9 nights in 2007-08. Expenditure on foreign travel by residents increased by 4.9 per cent to Rs12,006 million in 2007-08. The deficit in the "other services" account increased from Rs5,048 million in 2006-07 to Rs5,363 million in 2007-08. The transportation account recorded a deficit of Rs5,142 million in 2007-08 compared to Rs5,684 million in 2006-07.

Table V.1: Balance of Payments Summary

	2003-04	2004-05	2005-06	2006-07 [1]	2007-08 [2]	2008-09 [3]*
			Rs million			
Current Account	**1,383**	**-6,322**	**-10,188**	**-17,415**	**-22,224**	**-20,983**
Goods	**-10,457**	**-20,343**	**-25,533**	**-38,008**	**-55,274**	**-47,404**
Exports f.o.b.	54,203	57,857	68,959	72,840	67,844	62,965
Imports f.o.b.	64,660	78,200	94,492	110,848	123,118	110,369
Imports c.i.f.	69,586	84,324	101,148	117,797	130,838	118,676
Services	**11,271**	**12,482**	**12,363**	**14,069**	**20,595**	**16,680**
Income	**-1,002**	**-134**	**1,341**	**3,499**	**8,340**	**3,121**
Current Transfers	**1,571**	**1,673**	**1,641**	**3,025**	**4,115**	**6,620**
Capital and Financial Account	**-1,168**	**3,380**	**4,141**	**6,212**	**12,589**	**20,983**
Capital Account	**-40**	**-28**	**-98**	**-50**	**-49**	**-70**
Financial Account	**-1,128**	**3,408**	**4,239**	**6,262**	**12,638**	**21,053**
Direct Investment	964	-887	578	7,084	6,211	9,456
Portfolio Investment	-743	-325	-1,679	2,949	-3,219	-3,600
Other Investment	1,876	1,487	2,321	2,832	18,755	16,089
Reserve Assets	-3,225	3,133	3,019	-6,603	-9,110	-892
Net Errors and Omissions	-215	2,942	6,047	11,203	9,635	0
			USD million			
Current Account	**50**	**-221**	**-335**	**-536**	**-772**	**-730**
Goods	**-381**	**-710**	**-839**	**-1,170**	**-1,921**	**-1,648**
Exports f.o.b.	1,975	2,020	2,266	2,241	2,358	2,188
Imports f.o.b.	2,356	2,730	3,105	3,411	4,279	3,836
Imports c.i.f.	2,536	2,944	3,324	3,625	4,547	4,125
Services	**411**	**436**	**406**	**433**	**716**	**580**
Income	**-37**	**-5**	**44**	**108**	**290**	**108**
Current Transfers	**57**	**58**	**54**	**93**	**143**	**230**
Capital and Financial Account	**-43**	**118**	**136**	**191**	**437**	**730**
Capital Account	**-1**	**-1**	**-3**	**-2**	**-2**	**-2**
Financial Account	**-42**	**119**	**139**	**193**	**439**	**732**
Direct Investment	35	-31	19	218	216	329
Portfolio Investment	-27	-11	-55	91	-112	-125
Other Investment	68	52	76	87	652	559
Reserve Assets	-118	109	99	-203	-317	-31
Net Errors and Omissions	-8	103	199	345	335	0

[1] Revised. [2] Estimates. [3] Projections.
** For 2008-09, the projections in US dollar equivalent have been derived using 2007-08 Rs/US dollar exchange rate.*
Notes:
(a) Import data for 2003-04 are inclusive of import of aircraft (Rs219 million).
(b) Import data for 2004-05 are inclusive of import of aircraft (Rs120 million).
(c) Export data for 2005-06 are inclusive of sale of aircrafts (Rs670 million).
(d) Import data for 2005-06 are inclusive of import of aircraft (Rs125 million) and marine vessel (Rs21 million).
(e) Import data for 2006-07 are inclusive of import of aircrafts (Rs6,700 million).
(f) Export data for 2006-07 are inclusive of sale of aircraft (Rs465 million).
(g) Import data for 2007-08 are inclusive of import of aircrafts (Rs2,730 million).
(h) As from 2002-03, data on imports and exports include transactions through the Mauritius Freeport.
(i) As from 2005-06, income data include interest income of banks.

The income account posted higher net inflows of Rs8,340 million in 2007-08 compared to Rs3,499 million registered in 2006-07. The surplus on the current transfers account increased from Rs3,025 million in 2006-07 to Rs4,115 million in 2007-08.

Chart V.1 shows the main components of the current account for the fiscal years 2001-02 through 2007-08. Chart V.2 shows the financing of the current account from 2001-02 through 2007-08.

Chart V.1: Components of the Current Account

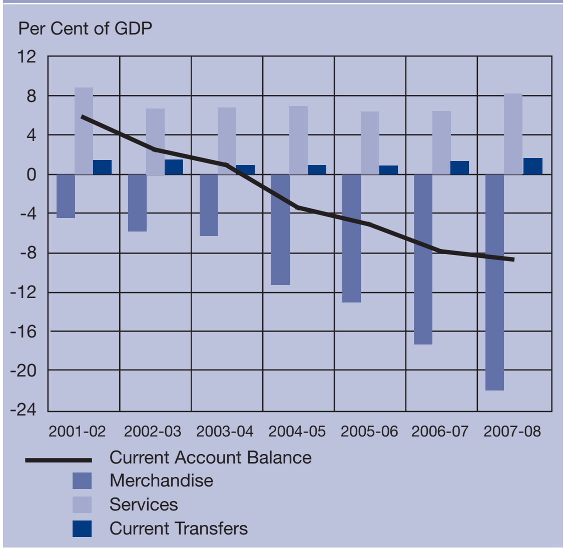
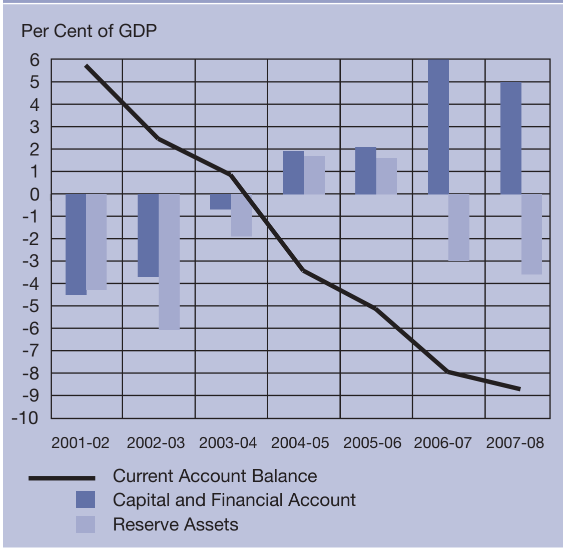


Chart V.2: Financing of the Current Account



CAPITAL AND FINANCIAL ACCOUNT

During 2007-08, foreign direct investment in Mauritius recorded net inflows of Rs8,597 million compared to net inflows of Rs7,851 million in 2006-07. Gross foreign direct investment in Mauritius stood at Rs8,787 million in 2007-08, largely due to investment directed to the Financial Intermediation sector (Rs2.7 billion) and the 'Hotels and Restaurants' sector (Rs4.3 billion) as developments under the Integrated Resorts Scheme (IRS) gathered pace. Disinvestments from Mauritius amounted to Rs190 million in 2007-08

Direct investment abroad by residents registered net outflows of Rs2,386 million in 2007-08 compared to Rs767 million in the preceding fiscal year. Gross foreign direct investment by Mauritian residents stood at Rs2,401 million in 2007-08 and was mainly directed to the tourism sector in the Maldives, Morrocco and the Seychelles, the 'Real estate, renting and, business activities' sector and the 'Manufacturing' sector. Residents' repatriation of foreign direct investment from abroad amounted to Rs15 million, the bulk being disinvestments from the 'Real estate, renting and business activities' sector (Rs9 million). Consequently, direct investment recorded net inflows of Rs6,211 million in 2007-08 compared to net inflows of Rs7,084 million in 2006-07.

Portfolio investment recorded net outflows of Rs3,219 million in 2007-08, as against net inflows of Rs2,949 million registered in 2006-07. This reflected lower net portfolio investments effected by non-residents in Mauritius, from Rs5,851 million in 2006-07 to Rs11million in 2007-08, mainly on account of maturing money market instruments held by non-residents, which were not subsequently renewed as a result of declining yield. Nonetheless, increasing non-resident investors' confidence on the Stock Exchange of Mauritius (net investment of Rs2,115 million in 2007-08 compared to Rs1,066 million in 2006-07) enabled to partly mitigate the disinvestment in money market instruments and higher portfolio investments by residents abroad.

Loan receipts on account of Government amounted to Rs2,427 million in 2007-08 while capital repayments totalled Rs919 million, implying a net inflow of Rs1,508 million. Loan disbursements to public corporations, both financial and non-financial, amounted to Rs2,994 million while capital repayments totalled Rs2,364 million, thus registering a net outflow of Rs630 million in 2007-08 compared to a net outflow of Rs2,836 million during 2006-07. Private long-term capital movements recorded a net outflow of Rs73 million in 2007-08 compared to a net outflow of Rs450 million during the preceding fiscal year.

It may be noted that the data on certain components of the 'other investment' account (namely, bank's assets, bank's liabilities and other short term assets and other short term liabilities) for the fiscal year 2007-08 are not strictly comparable to 2006-07 given that banks' assets and liabilities have been derived using the Depository Corporations Survey.[1]

[1] Previously the monetary survey was used to derive bank's foreign assets and liabilites.

NET INTERNATIONAL RESERVES

The net international reserves of the country, made up of the net foreign assets of the banking system, the foreign assets of the Government and the country's Reserve Position in the International Monetary Fund (IMF), increased by Rs447 million, from Rs83,499 million at the end of June 2007 to Rs83,946 million at the end of June 2008.

Table V.2 shows the monthly level of net international reserves of the country during fiscal year 2007-08.

The major component of net international reserves, namely, net foreign assets of the Bank of Mauritius, increased by Rs4,803 million, from Rs52,223 million at the end of June 2007 to Rs57,026 million at the end of June 2008. Net foreign assets of banks decreased by Rs4,338 million, from Rs30,939 million at the end of June 2007 to Rs26,601 million at the end of June 2008.

In terms of import cover, the level of net international reserves of the country at the end of June 2008 represented around 7.9 months of imports based on the value of the import (c.i.f.) bill for fiscal year 2007-08 excluding import of aircraft, compared with 9.0 months of imports at the end of June 2007. The end-June 2009 level of net international reserves of the country has been projected at Rs84,838 million, equivalent to 8.6 months of imports.

Table V.2: Net International Reserves *

	Bank of Mauritius Net Foreign Assets	Other Depository Corporations Net Foreign Assets[1]	Others[2]	Net International Reserves
2007				
Jul	51,985	34,435	333	**86,753**
Aug	51,918	34,870	337	**87,125**
Sep	51,740	33,633	331	**85,704**
Oct	52,696	35,485	336	**88,517**
Nov	51,937	37,694	333	**89,964**
Dec	50,880	34,640	314	**85,834**
2008				
Jan	52,778	35,550	280	**88,608**
Feb	52,442	36,242	270	**88,954**
Mar	53,860	27,619	263	**81,742**
Apr	54,533	26,344	259	**81,136**
May	57,775	29,466	322	**87,563**
Jun	57,026	26,601	319	**83,946**

** Based on the methodological framework of the IMF Depository Corporations Survey.*
[1] The Net Foreign Assets of Other Depository Corporations are adjusted for transactions of Global Business Licence Holders.
[2] Comprise Foreign Assets of the Government and the country's Reserve Position in the IMF.

Box II Coordinated Portfolio Investment Survey (CPIS)

The Coordinated Portfolio Investment Survey (CPIS), jointly conducted by the Bank of Mauritius and Financial Services Commission, is an initiative of the International Monetary Fund (IMF). It is aimed at collecting information on investment by Mauritian residents in securities issued by unrelated non-residents, both in terms of market value and geographical distribution. The CPIS is concerned with portfolio investment stocks for equities, long-term as well as short term debt securities.

Results of the 2007 CPIS in Mauritius:

As at 31 December 2007, residents' portfolio investment assets, exclusive of foreign exchange reserve assets, amounted to US$154,645.0 million at current market value, up from US$81,549.6 million as at end 2006. The significant increase in portfolio assets for 2007 was largely driven by the global business sector, which amounted to US$153,227.8 million.

Out of the total portfolio investment stocks, equity securities, long-term debt securities and short-term securities were valued at US$130,100.3 million, US$21,865.6 million and US$2,679.2 million, respectively. When compared to 2006, the stock of investment in equity securities, long term debt and short term securities soared by 84.6 per cent, 108.7 per cent and 338.0 per cent.

India remained the destination of most of our portfolio investment with a share of 71.6 per cent (or US$110,685.4 million), followed by Singapore with a share of 6.2 per cent (or US$9,639.1 million) and Hong Kong SAR with a share of 3.1 per cent (or US$4,816.5 million).

Mauritius Residents' Portfolio Investment by type of financial instruments

As at the end of 31 December 2007 (in millions of US Dollars)

Year	Equity securities	Long-term Debt securities	Short-term Debt securities	Total
2005	48,836.7	5,528.9	468.4	54,834.0
2006	70,463.2	10,474.7	611.7	81,549.6
2007	130,100.3	21,865.6	2,679.2	154,645.0

The IMF's 2006 CPIS Results

Total global portfolio investment assets increased from US$25.9 trillion at the end of December 2005 to US$32.4 trillion at the end of December 2006, driven mainly by higher investment in equity and long-term debt securities. For the 2006 CPIS, securities held as reserve assets and holdings of international organizations amounted to US$2.6 trillion, up from US$2.2 trillion at the end of December 2005. The United States, United Kingdom and Luxembourg remained the three largest investing countries with a total share of 35.4 per cent of total portfolio investment assets.

Of total global cross-border holdings, US$13.8 trillion were held as equity securities, US$16.3 trillion as long-term debt and US$2.3 trillion as short-term debt in the 2006 CPIS. As at end-December 2006, the top five economies that were the largest issuers of securities that traded internationally were the United States, United Kingdom, Germany, France and Luxembourg while the top five economies that were the largest holders of such securities were the United States, United Kingdom, Luxembourg, France, and Japan. The results of the 2001 through 2006 CPIS are available on the Fund's website (Portfolio Investment: CPIS Data Results; http://www.imf.org/external/np/sta/pi/datarsl.htm).

Box III International Investment Position of Mauritius as at Year-End 2007

The International Investment Position (IIP) is compiled annually by the Bank in line with international standards and conventions as laid down in the 5th edition of the Balance of Payment Manual (BPM5, 1993) of the International Monetary Fund. The IIP reports the stock of external financial assets and liabilities of the country at a point in time. External asset and liability items comprised in the IIP consist of claims on non-residents and liabilities to non-residents.

Owing to limited data sources, a partial coverage of the IIP is presented for Mauritius. This partial IIP covers the foreign assets and liabilities of the Public Sector and Depository Corporations, Insurance Companies, and Pension Funds.

The net IIP of Mauritius, defined as the difference between external assets and liabilities, increased to US$2,410 million as at year-end 2007 from US$1,721 million as at year-end 2006. The increase was attributed to a higher increase of US$3,738 million in total external assets compared to an increase of US$3,049 million in external liabilities. As a percentage of GDP, the net IIP was equivalent to 32.1 per cent at year-end 2007 compared to 26.4 per cent at year-end 2006.

Within the IIP, the stock of portfolio investment assets increased by US$362 million or 34.4 per cent as from year-end 2006. This substantial increase was due to acquisitions of foreign equity securities and debt securities during the year 2007. Portfolio investment liabilities outstanding increased by 53.3 per cent to attain US$918 million on account of non-residents' increased demand for rupee denominated money market instruments and also continued purchases of Mauritian equity securities by non-resident investors, supported by a favourable outlook for business performance of Mauritian companies. The stock of financial derivatives assets and liabilities increased by 49.9 per cent and 61.2 per cent, respectively from year-end 2006. Other investment assets increased by 42.6 per cent from year-end 2006 while stock of other investment liabilities registered a lower increase of 39.3 per cent. The stock of reserve assets rose by US$521 million in 2007.

Mauritius International Investment Position (End-period stocks)

(in millions of US Dollars)

	2006	2007
Assets	**8,977**	**12,715**
Portfolio Investment	1,054	1,417
Financial Derivatives	487	730
Other Investment	6,135	8,747
Reserve Assets	1,301	1,822
Liabilites	**7,256**	**10,305**
Portfolio Investment	599	918
Financial Derivatives	515	830
Other Investment	6,142	8,556
Net International Investment Position	**1,721**	**2,410**
Net International Investment Position as a % of GDP	**26.4**	**32.1**

Box IV IMF Executive Board Concludes 2008 Article IV Consultation with Mauritius

Public Information Notice (PIN) No. 08/83

July 15, 2008

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

On July 2, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritius.[a]

Background

Economic growth is responding to structural reform efforts. Tax reform, together with improvements in the business environment and investment initiatives, has spurred foreign investment to unprecedented levels and accelerated growth. Growth, projected at 6½-7 percent in 2007/08 (fiscal year ending June 2008), is broad based but especially strong in tourism, banking, construction, and services. Rising fiscal receipts and expenditure containment have cut the deficit and public sector debt is continuing to decline. The external current account deficit has eased but remains high on investment-driven import growth. The exchange rate appreciated 17 percent in real effective terms in the 12 months ending February 2008 from an overly depreciated level in 2005-06. However, the economy is facing rising labor, infrastructure, and other bottlenecks, as well as strong head winds from international commodity price rises. Although an appreciation of the exchange rate has dampened some of the inflationary pressures, inflation remains a concern. The central bank (BoM) has accumulated reserves, which are projected to reach 6½ months of imports by end 2007/08. However, the large and rising errors and omissions items in the balance of payments cloud the external sector analysis.

The overall fiscal position has improved as revenues have risen strongly in response to tax reforms and expenditure has been contained. Tax reform has made the tax regime more progressive, easier to administer, and broadened the base. On the expenditure side, debt service has declined in line with falling interest rates, but capital expenditure is under target owing to implementation difficulties. The authorities have introduced fiscal management laws which will contribute to better fiscal performance.

Monetary policy is being strengthened to improve transparency and effectiveness. However, liquidity has been growing rapidly and excess liquidity has persisted in the financial system since early 2007. Interest rates have declined markedly as the government borrowing requirement has dropped. In April 2008 the BoM introduced new instruments, extended a special deposit facility, and widened the repo corridor in an attempt to strengthen liquidity management. The BoM has conducted sterilized intervention in the foreign exchange market to limit the nominal appreciation of the rupee.

The banking sector and financial system remain relatively sound and vulnerability indicators have improved. Financial soundness indicators point to a further improvement in the quality of assets as evidenced by the decline in the nonperforming loans ratio. The banking system is well capitalized. The stock exchange outperformed most emerging markets in 2007, pushing the index to record levels, supported by strong fundamentals.

The authorities have continued efforts to liberalize international trade and secure market access. A partnership agreement with the EU has been initiated. A free trade agreement with Pakistan was signed and an agreement with India is under discussion. However, several parastatals maintain import and distribution monopolies on basic goods, and an administered price regime remains in place for many basic goods.

Mauritius' medium-term outlook has turned more favorable with the effects of the reform effort. Economic growth is projected to remain at about 5 percent through the medium term, reflecting continued growth in tourism, services, and investment in large projects. Fiscal consolidation is expected to proceed with moderate primary surpluses and a declining overall deficit and public debt burden. The external current account deficit is expected to decline only moderately as large foreign investment inflows draw in imports. The key macroeconomic challenge is to manage the recent economic success through a broadening of structural reforms to spur economic efficiency and consolidate and refocus fiscal policy.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the revived performance of the Mauritius economy, spurred by the important tax and business environment reforms adopted since 2006 that have contributed to reduced fiscal deficits and rising foreign direct investment. Directors noted, however, that the large capital inflows have added to demand pressures, and inflation remains high, reflecting also rising international commodity prices and emerging supply constraints. Against this background, Directors encouraged the authorities to proceed with their plans for further fiscal consolidation and deeper structural reforms in order to alleviate bottlenecks and ensure sustained noninflationary growth.

Directors underscored the importance of continued fiscal consolidation to underpin macroeconomic stability. They noted that the recent tax reforms have made the tax system more progressive and easier to administer, while boosting fiscal receipts. Directors encouraged the authorities to build on these successes, and to extend the reform effort to the expenditure side of the budget and to the parastatal sector. Improving the efficiency of social assistance programs by consolidating and targeting will be vital to further strengthening the fiscal position. More generally, Directors considered that the introduction of program-based budgeting in the 2008/09 (July/June) budget will serve to strengthen spending efficiency over the medium term. They also welcomed the authorities' plans to introduce fiscal management laws on public debt management and public finance and audit. Directors expressed concern, however, that the sizable public sector wage increase in the 2008/09 budget, in the context of strong private sector demand, would contribute to further inflationary pressures.

Directors encouraged the authorities to continue their efforts to strengthen the monetary framework. While underlying inflation remains broadly under control and a significant component is imported, Directors advised the authorities to remain vigilant against inflation, in light of increasing demand pressures. Communication by the Bank of Mauritius (BoM) of an inflation target range for monetary policy would help shape inflation expectations more actively. Greater efforts to manage liquidity, in closer coordination with the fiscal authorities, will also pay dividends. Directors welcomed steps to strengthen further the BoM's capital base and governance structures.

Directors were of the view that Mauritius's managed floating exchange rate regime provides an appropriate framework for macroeconomic management. They noted the staff assessment that the real effective exchange rate of the rupee appears broadly in line with fundamentals. The nominal appreciation of the rupee in 2007-08, from a depreciated level in 2005-06, reflected increased capital inflows and was helpful in dampening inflation.Directors noted that the staff's view that, should capital inflows rise as projected, further real exchange rate appreciation may be unavoidable, and should occur preferably through nominal appreciation. This should be accompanied by additional fiscal consolidation as well as structural reforms aimed at improving economic efficiency and competitiveness.

In the area of structural reform, Directors supported a disengagement and divestment strategy for parastatals in the importation and distribution of basic goods. Further steps are also needed to upgrade workforce skills and enhance labor market flexibility, liberalize domestic trade, reduce import duties, and phase out administered prices.

Improving the coverage and reliability of national statistics is a high priority, especially with regard to the financial account of the balance of payments and the international investment position, in line with previous recommendations.

It is expected that the next Article IV consultation with Mauritius will be held on the standard 12-month cycle.

Mauritius : Selected Economic and Financial Indicators, 2005/06 - 2012/13 [1]

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
					Baseline Projections			
	(Annual percent change, unless otherwise indicated)							
National income, prices and employment								
Real GDP	3.6	4.2	6.6	6.2	5.1	5.1	5.1	5.1
Real GDP per capita	2.8	3.4	5.7	5.4	4.3	4.4	4.4	4.4
GDP deflator	4.4	7.9	8.4	7.5	6.8	5.5	5.0	5.0
Domestic demand at current prices [2]	10.8	17.8	15.5	15.6	10.5	9.8	9.4	9.3
Consumer prices (period average)	5.1	10.7	9.5	8.5	7.3	6.0	5.3	5.0
Consumer prices (end of period)	7.6	10.0	9.0	8.0	6.5	5.5	5.0	5.0
Unemployment rate (percent)	9.3	8.9	8.7	...	...	...	...	...
Unit Labor cost	3.8	4.3	5.6	...	...	...	...	...
External sector								
Exports of goods, f.o.b. (U.S. dollars)	12.1	3.2	9.4	3.8	3.8	5.6	5.3	5.3
Exports of services, (U.S. dollars)	3.2	20.2	24.2	16.7	14.1	12.3	11.4	11.2
Of which: tourism receipts (US dollars)	12.1	23.8	25.0	17.6	15.0	12.0	11.5	11.2
Imports of goods, f.o.b. (U.S. dollars)	14.1	14.5	17.0	15.1	5.6	6.4	6.1	5.8
Nominal effective exchange rate [3]	-3.4	-9.9	3.0	...	...	...	...	...
Real effective exchange rate [2]	0.6	-2.8	7.1	...	...	...	...	...
Terms of trade	-7.7	-3.4	...	...	...	...	...	...
Money and credit [4]								
Net Foreign Assets	10.3	36.8	-4.6	...	...	...	...	...
Domestic credit	15.7	7.1	27.1	...	...	...	...	...
Net claims on government	2.5	-3.3	2.8	...	...	...	...	...
Credit to private sector [5]	13.2	10.4	24.2	...	...	...	...	...
Broad money (end of period, annual percentage change)	6.7	8.6	10.3	14.2	16.1	15.4	15.0	16.5
Income velocity of broad money	1.0	1.0	1.1	1.1	1.0	1.0	0.9	0.9
Interest rate (weighted average TBs, primary auctions)	7.5	11.9	..	...	...	...	..	...
	(Percent of GDP)							
Central government budget								
Overall balance (including grants)	-5.3	-4.2	-3.0	-2.8	-2.8	-2.3	-1.9	-1.5
Primary balance (including grants)	-1.5	-0.2	1.7	1.1	0.3	0.3	0.3	0.5
Revenues and grants	20.1	19.3	21.7	20.8	20.8	20.9	21.2	21.4
Expenditure and net lending	25.5	23.6	24.7	23.6	23.6	23.2	23.1	22.9
Domestic debt of central government	51.4	46.6	44.7	40.5	37.0	33.7	30.3	27.0
External debt of central government	4.4	4.7	4.9	5.7	7.0	8.1	9.2	10.0
Investment and saving								
Gross domestic investment	22.5	26.4	29.1	30.8	32.4	33.8	35.0	35.3
Public	7.1	6.6	6.8	7.2	7.6	7.9	8.3	8.7
Private	13.7	19.0	22.3	23.6	24.8	25.9	26.7	26.6
Gross national savings	17.2	18.4	24.7	24.6	27.1	29.4	30.9	31.9
Public	-1.4	-0.8	0.7	-0.1	0.3	0.8	1.6	2.2
Private	18.6	19.2	24.1	24.7	26.8	28.6	29.4	29.7
External sector								
Trade balance	-13.2	-17.4	-19.3	-21.2	-20.0	-18.9	-18.0	-17.0
Exports of goods and services, f.o.b.	60.5	60.8	59.7	54.0	51.4	49.6	47.8	46.1
Imports of goods and services, f.o.b.	-67.4	-71.8	-69.8	-65.4	-61.2	-58.2	-55.5	-52.7
Current account balance	-5.3	-8.0	-4.3	-6.2	-5.3	-4.5	-4.0	-3.3
Overall balance	-1.6	3.0	8.9	2.9	3.1	1.5	2.0	2.7
Total external debt [6]	11.7	11.0	9.5	9.3	9.9	10.5	11.3	10.8
Net international reserves, BOM (millions of U.S. dollars)	1,408	1,617	2,343	2,628	2,978	3,168	3,453	3,895
Net international reserves, BOM (months of imports of goods, c.i.f.)	5.2	5.2	6.4	6.2	6.7	6.7	6.8	7.3
Memorandum item:								
GDP at current market prices (millions of Mauritian rupees)	194,572	218,784	252,870	288,702	324,056	359,426	396,775	438,006
GDP per capita (U.S. dollars)	5,357	5,649	6,325	7,326	8,703	9,778	10,937	12,236
Foreign currency long-term debt rating (Moody's)	Baa2	Baa1	Baa2	...	...	...	...	...

Sources: Bank of Mauritius; Central Statistics Office; Ministry of Finance; Moody's and IMF staff estimates and projections.

[1] Fiscal year (July-June)

[2] Excluding changes in stocks

[3] Period averages(a negative sign signifies a depreciation). 2007/08 figures show the change in average exchange rate since beginning of FY.

[4] Percent of beginning of period M2

[5] Includes credit to parastatals.

[6] Projections excluding external debt related to unidentified capital flows.

[a] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

VI.REGIONAL COOPERATION

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

The SADC Summit was held in Lusaka, Republic of Zambia, in August 2007. The outgoing Chairperson noted progress made towards deeper regional integration and efforts to achieve the Free Trade Area in 2008 and called for a review of the regional energy situation, the removal of all barriers to facilitate the movement of goods, including an effective operationalisation of corridors to alleviate the inhibiting costs of transport, especially for landlocked SADC Member States. The 2007 Summit noted that there is a basis to declare the SADC Free Trade Area in 2008 in the light of the Report of the Ministerial Task Force on Regional Economic Integration.

Progress made in the preparation of the SADC Customs Union Road Map was noted and the Ministerial Task Force was urged to accelerate the completion of work in this area. The need to accelerate the implementation of related trade and economic programmes was again underlined. The recent economic developments in the SADC region were reviewed by the Summit and it was noted with satisfaction that the region registered positive economic growth. Member states were urged to continue implementing sound macroeconomic policies that enhance further macroeconomic convergence.

According to the 2007 Integrated Paper on Recent Economic Developments in SADC, the strong pace of economic expansion has been maintained in 2006, driven by continued economic expansion, prudent macroeconomic policies, debt relief and sustained demand for fuel as well as non-fuel commodities with favourable prices. On average, real GDP for the region expanded by 5.6 per cent in 2006, rising from 5.2 per cent in 2005. Excluding Zimbabwe, average growth for the region rose from 5.9 per cent in 2005 to 6.1 per cent in 2006. In spite of this sustained performance, the region is still below the 7.0 per cent growth rate, which is necessary to halve poverty by 2015 and achieve the Millennium Development Goals.

The highest real GDP growth was recorded by Angola, at 18.6 per cent, followed by Malawi with 7.9 per cent and Lesotho with 7.2 per cent. The annual average growth for the SADC region, excluding Zimbabwe, is projected to accelerate to 7.2 per cent in 2007.

The average inflation rate in the SADC region, excluding Zimbabwe, moderated from 10.1 per cent in 2005 to 9.7 per cent in 2006. In Zimbabwe, inflation accelerated from 585.8 per cent in 2005 to 1281.1 per cent in 2006, mainly as a result of adverse inflationary expectations and rising food, production and energy costs. In fact, rising oil and food prices have contributed to the persistently high inflation in the SADC region.

Buoyant export prices and in some cases, strong revenue arising from import duties, contributed to the significant improvement of most SADC countries' public finances in 2006. The average fiscal balance in SADC improved from a deficit of 1.3 per cent of GDP in 2005 to a surplus of 2.6 per cent in 2006. Excluding Zimbabwe, the average surplus in 2006 worked out to 3.2 per cent of GDP. In 2006, government debt as a percentage of GDP declined in all SADC countries with the exception of Swaziland, reflecting the impact of debt relief and improved fiscal balance.

As regards balance of payments developments, in 2006, the SADC region's external position strengthened. The average ratio on the balance of current account to GDP narrowed from a deficit of 3.7 per cent in 2005 to a deficit of 0.7 per cent in 2006. Strong export prices contributed to high surpluses on the current account in some countries.

Foreign Direct Investment in the SADC region declined to approximately US$ 3.3 billion in 2006 as compared to US$ 8.3 billion in 2005, mostly as a result of a net outflow in SADC of direct investment capital from South Africa. Gross international reserves strengthened in 2006, while the months of imports covered by international reserves increased from 5.2 months in 2005 to 6.4 months in 2006.[1] In 2006, Botswana retained its position as the SADC country with the highest import cover at 30 months. Most SADC countries recorded currency depreciations in 2006.

[1]Data for Zimbabwe not available

The SADC Summit held a special session, which focused on strategies to accelerate regional infrastructure development with a view to supporting deeper regional integration and development. To achieve this objective, the Secretariat was directed to work out the details of a regional Master Plan for Infrastructure Development in close cooperation with Member States. The food security situation in the region was reviewed and it was noted that Malawi and Zambia have a cereal surplus. Progress was achieved in the implementation of the Maseru Declaration on Combating HIV and AIDS. As regards gender and development, summit noted that progress was made towards achieving the set target of 50% women representation in decision-making. The Summit agreed to defer signature of the protocol on gender and development to allow some Member States to conclude their internal consultations.

The SADC Brigade, which consists of military, police and civilian components from all SADC Member States, was launched at the Summit, in line with the provisions of the African Union for each of the five Regional Economic Communities (RECs) to have a standby capacity for peace support operations on the continent. The summit also noted the consolidation of democracy and political stability in the region, with particular reference to elections held in member countries such as the Democratic Republic of Congo, the Kingdom of Lesotho, the Republic of Madagascar and the Republic of Zambia.

The Extra-Ordinary SADC Summit of Heads of State and Government was held in April 2008 to discuss political developments following recent elections in Zimbabwe. The Summit took note of the Report of the Chairperson of the Organ on the elections in Zimbabwe, which stated that the electoral process was acceptable to all parties. The electoral authorities in Zimbabwe were urged by the Summit to expedite the verification and release of results in accordance with the due process of law. Summit also urged all the parties in the electoral process in Zimbabwe to accept the results when they are announced.

The SADC International Conference on Poverty and Development, was held in April 2008 in Mauritius. Heads of State and / or Government agreed to give urgent attention in a number of areas including food security, climate change, greater use of renewable and alternative sources of energy, higher economic growth through accelerated regional integration and development of human capabilities. To address the priorities, Heads of State and / or Government agreed on a number of measures including: the setting up of a Task Force of Ministers of Trade, Agriculture and Finance, mandated to focus immediately on the food crisis and to attain food security through short-term and long-term measures; setting up of a Regional Poverty Observatory to eradicate poverty; promotion of micro finance and small and medium enterprises with particular emphasis on gender; promotion of education and skills development and intensification of efforts to combat HIV AIDS and other diseases; setting up of the necessary framework for the rapid operationalisation of the SADC Development Fund to upgrade infrastructure; continue negotiations for resources under "Aid for Trade"; seeking additional resources from international cooperating partners and encourage Foreign Direct Investments in the SADC region.

The Committee of Central Bank Governors (CCBG) in SADC

During the period July 2007 to June 2008, the CCBG met in August 2007 and in April 2008 in Pretoria, South Africa. At their August 2007 meeting in South Africa, Governors discussed the Integrated Paper on Recent Economic Developments in SADC, prepared by the South African Reserve Bank, regarding the economic performance of Member States as well as progress achieved with regards to macroeconomic convergence. Governors also noted that the remaining SADC Member States, including Angola, Malawi, Namibia and Zambia had signed the Finance and Investment Protocol (FIP). At the April 2008 meeting, the CCBG discussed progress achieved regarding various reports, projects and other initiatives that fall under its responsibility. Procedural and administrative issues were also looked into.

Exchange Control in SADC Countries

The SADC Exchange Control Committee (ECC) adopted the draft policy framework for liberalisation of exchange control at its meeting held in Lusaka, Zambia on 16 and 17 February 2008. The policy framework would be submitted for approval to SADC Ministers responsible for national financial matters at their next meeting. The SADC Secretariat had initiated a study to establish the status of exchange controls in the region. The objective of the study is to present a comprehensive assessment of the status quo of current account for individual country-liberalisation road maps.

Legal and Operational Framework Steering Committee

A revised draft model Central Bank Bill was submitted to the April 2008 CCBG meeting. Governors approved the draft Central Bank Bill benchmark document.

Governors noted that the draft Model Central Bank Bill would be submitted to a plain language specialist for review and plain language refinement.

Governors also noted that the draft Green Paper needed further consequential amendments emanating from the approved content of the draft Model Central Bank Bill and would be submitted to Governors at their August 2008 meeting.

The amended Green Paper and the draft Central Bank Bill would be submitted to the European Central Bank jurist linguists for translation.

SADC Subcommittee of Banking Supervisors (SSBS)

The meeting for heads of banking supervision was held in Luanda, Angola in April 2008. An overview of the status of the Financial Soundness Indicators (FSIs) in each member country, compiled by experts from the Bank Supervision Department of the South African Reserve Bank was circulated during the CCBG Meeting in April 2008.

A country status report on the Implementation of International Accounting Standards, Implementation of Basel II and Anti-money laundering issues and combating of financing of terrorism was also circulated.

SADC Peer Review Panel

At the August 2007 CCBG meeting, Governors noted that SADC Ministers approved the establishment of the Peer Review Panel (PRP) consisting of the SADC Ministers, responsible for national financial matters, and Governors. The mandate of the PRP was to evaluate and monitor the annual progress on macroeconomic convergence programmes and to make necessary recommendations. At the CCBG April 2008 meeting, governors noted the draft Terms of Reference for the PRP, which would be submitted for adoption at the proposed Governors and Ministers meeting to launch the PRP.

Macroeconomic Convergence Targets in SADC

Through prudent monetary and fiscal policies, most SADC countries have maintained single-digit inflation. Favourable weather conditions have helped to reduce food prices. But containing low inflation levels remains a challenge in view of monetary expansion, external shocks (rising oil prices) and recurring natural calamities such as droughts or floods.

Most SADC Member States have made progress in terms of achieving the macroeconomic convergence target of fiscal deficit of less than 5 per cent of gross domestic product (GDP), owing to prudent fiscal policies. Some Member States' development also benefited from Heavily Indebted Poor Countries (HIPC) policies. In future, sustainability of the fiscal balances will depend on a tight fiscal policy stance.

SADC Member States are striving to achieve the target of public debt / GDP ratio of less than 60 per cent, which is being made possible through debt relief from HIPC and prudent fiscal regimes, amongst other factors. SADC Member States' current-account balances deteriorated as result of a surge in the price of commodities. The current account deficits have largely been financed by capital inflows, grants and loans. The following factors are likely to hamper sustainable economic growth in the SADC region: most economies remain undiversified and remain dependent mostly on natural resources, recurring droughts / floods, power shortages and capacity constraints.

Finance and Investment Protocol

The SADC Secretariat held a workshop on implementation of the Finance and Investment Protocol (FIP) in November 2007 in Zambia. All SADC countries have signed the FIP and Member States were urged to speed with their respective ratification processes and deposit their instruments of ratification with the SADC Secretariat. To date, one country, namely Botswana had deposited its instrument of ratification of the FIP with the SADC Secretariat. For the implementation of the FIP, there was a European Union funded project to the value of 13 million euros over four years. The SADC Secretariat expects the project to start later in 2008.

CCBG Financial Markets Subcommittee

At their April 2008 meeting, Governors approved that a CCBG Financial Markets Subcommittee be established comprising all SADC Central Banks. The aim of the subcommittee is to facilitate information exchange, undertake projects aimed at promoting regional integration of financial markets and make proposals on further development of capital markets in the region as and when necessary. It was agreed that Lesotho be designated the permanent Chairman of this subcommittee.

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

The Common Market for Eastern and Southern Africa (COMESA) was set up in 1994, replacing the Preferential Trade Area for Eastern and Southern African States (PTA) which was established in 1981. It is the largest regional economic grouping in Africa with 19 member countries: Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

Economic growth in the COMESA region stood at 7.0 per cent in 2006 despite high oil prices during the year. This strong growth is attributable mainly to higher exports of commodities and at more favourable prices, a significant increase in official development assistance composed largely of debt relief and emergency assistance, improved macroeconomic stability and recovery in agricultural production in some countries. Intra-COMESA trade grew by 8.2 per cent in 2006. It has grown from less than US$1.7 billion in 2000 to US$6.8 billion in 2006. It continues to grow strongly and is estimated at US$7.5 billion in 2007.

COMESA has produced Africa's largest trading arrangement with a thirteen member Free Trade Area that will soon become a Customs Union. The integration journey started in December 1981 with the signing of the PTA Treaty, and was followed by COMESA in 1994, the Free Trade Area (FTA) in 2000, and the COMESA Common Investment Area (CCIA) to harmonize investment policies, laws and regulations with the Regional Investment Agency (RIA) based in Cairo, Egypt.

Financial System Development and Stability

A Financial System Development and Stability Plan has been approved for implementation. The Financial System Development and Stability Sub-Committee, which is responsible, inter-alia, for developing strategies for diversifying financial institutions and instruments at the national and regional levels and sharing experiences on bank supervision and regulation, met on 5-6 March, 2007 to examine the draft report and proposed guidance on the COMESA Financial System Development and Stability Plan. It discussed the implementation, coordination and evaluation mechanism of the plan, which includes commitment and acceptance of the proposed guidance by the member states, and the need for the implementation of the plan at a national level to be based on broad participation and consultation in order to create ownership for the outputs and to internalise the principles upon which it is based, with the COMESA Secretariat playing the role of facilitator and coordinator, and taking overall responsibility for management of the programme.

Meeting of the Chief Executives of Stock Exchanges in the COMESA Region

Following a meeting of the Chief Executives of Stock Exchanges in the COMESA region on 16-17 July, 2007 in Cairo, Egypt to discuss the prospects and constraints of integrating capital markets in the region, an action plan for the advancement of the integration of capital markets in the COMESA region and providing for the creation of a Securities Market Development Committee was approved for submission to the Council of Ministers.

Regional Payment and Settlement System (REPSS)

The Regional Payment and Settlement System (REPSS), being put in place by the Clearing House to improve the flow and settlement of cross-border payment transactions among financial institutions for the benefit, inter alia, of importers and exporters in the various member countries has reached the operational stage.

REPSS, designed as a Multilateral Netting System with end-of-day settlement and with possibility of real-time payment at higher fees, would operate with settlement either in US Dollar or Euro. A REPSS participating central bank will act as the settlement agent, on behalf of the COMESA Clearing House (CCH) and open a CCH US Dollar and a CCH euro account, at its Central Bank, pending the opening of these accounts at the Federal Reserve Bank of New York and the European Central Bank.

Macroeconomic Convergence in 2006

In 2006 the fiscal criterion was missed by 15 countries. The weighted average inflation in COMESA increased from 22.3 per cent in 2005 to 30.0 per cent in 2006. Nine countries experienced single-digit inflation rates, owing essentially to prudent monetary policies and generally favourable weather conditions. All countries use indirect monetary policy instruments.

Interest rates are liberalized in most countries. Some countries have exceptionally high real lending rates and a wide margin between lending rates and a wide margin between lending and deposit rates. This is a reflection of relative inefficiency of their banking system.

Most countries have made significant progress in moving towards market-determined exchange rates, thereby reducing overvaluation of their currencies, which prevailed during the 1980s and early 1990s. Many countries accepted Article VIII of IMF Agreement and thus fully removed restrictions on their current account.

The average growth in the COMESA region was 7 per cent in 2006 compared with a growth rate of 7.6 per cent in 2005. Increased exports of commodities at higher prices, a significant increase in official development assistance – largely on account of debt relief and emergency assistance, improved macroeconomic stability and recovery in agricultural production in some countries more than offset the impact of higher oil prices on growth.

The weighted average savings as a percentage of GDP for COMESA was 17.5 per cent in 2006 compared with 14.0 per cent in 2005. The weighted average investment as a percentage of GDP for COMESA improved from 16.1 per cent in 2005 to 18.5 per cent in 2006.

The weighted average external debt to official creditors to GDP ratio of COMESA countries decreased from 52.9 per cent in 2005 to 29 per cent in 2006. The average level of reserves in COMESA member countries was sufficient to cover 3.3 months of imports of goods and services in 2006 compared with 2.6 months of imports of goods and services in 2005.

Study on the Cost-Benefit Analysis of an Autonomous COMESA Monetary Institute versus Using the Existing Structure of COMESA

The pursuit of closer trade integration and fast-tracking monetary union would need to be undertaken simultaneously. Closer trade integration will necessarily raise the need for closer monetary cooperation. Monetary cooperation in turn will facilitate trade integration. It is deemed crucial to press ahead with the implementation of the next stages of the COMESA Monetary Integration Programme, namely, currency convertibility and exchange rate union, which are crucial for reducing barriers to trade and speeding up regional integration. The recommendations of the 'Cost-Benefit Analysis of an Autonomous COMESA Monetary Institute Versus Using the Existing Structure of COMESA' would provide a building block for the establishment of a COMESA Monetary Institute.

The COMESA Authority of Heads of State and Government, meeting in Djibouti on 15-16 November 2006, decided that a COMESA Monetary Institute (CMI) be established to undertake technical, policy, statistical, institutional and legal preparatory work that would lead to the creation of a COMESA Monetary Union (CMU), with a single currency issued by a common supra-national central bank and with common monetary and exchange rate policies. Following that decision a 'Cost-Benefit Analysis of an Autonomous COMESA Monetary Institute Versus Using the Existing Structure of COMESA' was carried out and presented at the Twelfth Meeting of the Comesa Committee of Governors of Central Banks. Drawing on the functions, organisation and management structure of some regional monetary institutes which preceded regional central banks, namely, the European Monetary Institute and the West African Monetary Institute, the study recommends the setting up of an independent COMESA Monetary Institute.

Also, the progress achieved in the implementation of a Regional Payment and Settlement System for the COMESA region as the core business of the COMESA Clearing House will significantly contribute to the expansion of intra-COMESA trade.

The COMESA Monetary and Exchange Rate Policies Sub-Committee undertook a number of empirical studies, the findings of which are deemed to be helpful for policy making and capacity building in member countries.

2 Regulation and Supervision

The Bank of Mauritius (the Bank) is empowered under the Banking Act 2004 and the Bank of Mauritius Act 2004 to regulate and supervise banks, non-bank deposit-taking institutions, foreign exchange dealers and money-changers. With the aim of achieving a sound and efficient banking system in the interest of the depositors of banks, the general public and the economy as a whole, the Bank applies rigorous standards in the licensing process and continuously regulates and monitors activities of institutions under its purview through the issue of prudential regulations and on-site and off-site surveillance of authorized institutions.

In its endeavour to strengthen the financial sector and promote financial stability in the country, the Bank is increasing its efforts towards improving financial sector regulation and supervision. During the financial year 2007/08, these efforts have been translated into a number of initiatives, review of existing regulations and introduction of new ones with the main objective of ensuring that financial institutions under the Bank's purview take adequate steps to manage risks.

LEGISLATIVE CHANGES AND REGULATIONS

Protocole D'Accord and Joint Bank of Mauritius / Financial Services Commission Coordination Committee

As financial institutions increasingly operate on a global environment and diversify their businesses, it has become important in the interest of financial stability for supervisory bodies to oversee the safety and soundness of these institutions on a consolidated basis. Further, the blurring of boundaries between different financial activities and the building up of large financial conglomerates make consolidated supervision crucial given that their regulation and supervision may be with more than one financial sector regulator.

In this respect, the Bank which has the supervisory responsibility for the banking and non-bank deposit-taking sectors and the Financial Services Commission (the FSC) which is the regulator for the non-bank financial services sector have agreed to collaborate more closely with a view to consolidating the overall supervision of the financial sector. This process of collaboration and co-operation was formalised through the signature of a Protocole D'Accord by the Governor of the Bank and the Chief Executive of the FSC and the launching of the Joint Bank of Mauritius/Financial Services Commission Coordination Committee on 12 July 2007.

The main purpose of the Protocole D'Accord is to expand the scope of an existing Memorandum of Understanding (MOU) signed between the two regulatory and supervisory bodies in December 2002. The Protocole D'Accord makes further provision for the parties to agree on the extent of their responsibilities and harmonization of their procedures with respect to financial institutions which are regulated by both the signatories.

The Coordination Committee has met during the year ended 30 June 2008 and discussed various issues of common interest. The Coordination Committee has also set up sub-committees to look in detail into certain aspects and make recommendations on them.

New Terms and Conditions for Money Changers

With the view to fostering competition in the foreign exchange market and narrowing the spread between the buying and selling rates of foreign currency, for the benefit of consumers, the Bank issued a communiqué on 2 August 2007, inviting applications for a money-changer licence from body corporates desirous of carrying on the business of money changer in Mauritius.

The decision to invite more players in the foreign exchange market was also motivated, inter alia, by the following factors:

i. The increasing number of tourist arrivals in the country;
ii. Greater integration of the economy with the rest of the world; and
iii. Improving the general service to the public.

The Bank has, in this respect, amended the terms and conditions governing the business of money-changer. Among the new terms and conditions are the higher minimum capital requirement of Rs 3 million as against Rs 1 million, and an additional Rs 1 million for each branch that they may be authorized to operate, stipulation of minimum holding of Rs 1 million in Treasury Bills and an undertaking to participate in an on line reporting system to be set up by the Bank.

Islamic Banking Services and Related Regulations

The Banking Act 2004 was amended by the Finance Act 2007 to incorporate Islamic Banking Services. Licensed banks may now offer Islamic Banking through window operations and institutions may be granted an Islamic Banking Licence to conduct Islamic Banking business exclusively. An effective regulatory and supervisory framework, good corporate governance and market discipline, robust risk management framework and an enabling legal infrastructure are the pre-requisites for a stable Islamic financial system.

In this connexion, the Bank issued the "Guideline for Institutions Conducting Islamic Banking Business".

Memoranda of Understanding with foreign Central Banks

In the light of the Financial Sector Assessment Program (FSAP) recommendations and with a view to establishing a good working relationship between supervisors as laid down in the Basel Committee's Concordat and the Core Principles for Effective Banking Supervision, the Bank entered into a MOU with the Hong Kong Monetary Authority in June 2008. The MOU will ensure collaboration and exchange of supervisory information to facilitate the performance of the duties of the respective regulatory authorities.

Financial Sector Assessment Program

As part of the FSAP, the International Monetary Fund and the World Bank conducted an assessment of the Bank's compliance with the Anti-Money Laundering and Countering the Financing of Terrorism regime in September/ October 2007.

As at end-June 2008, 19 banks, 13 non-bank deposit-taking institutions, 4 foreign exchange dealers and 2 money changers were operating in Mauritius. A list of authorized institutions as at 30 June 2008 is provided in the Appendix.

Basel II Implementation

In 2007/08, significant progress was made in the implementation of Basel II. Given the specificities of our banking industry, the Bank has, as a first step, finalised the framework for the standardised approaches of the new capital adequacy regime. In this respect, the Bank has issued guidelines relating to scope of application, eligible capital, standardised approach to credit risk, the recognition and use of External Credit Assessment Institutions, and operational risk. The Pillar 3 requirements have been dovetailed in the Guideline on Public Disclosure of Information.

Banks are required to report as from quarter ended March 2008, on a parallel run basis, their capital adequacy ratio (CAR) under both Basel I and the Basel II frameworks. The objective of the parallel run exercise is to ensure a smooth transition to the new framework. It would also provide an opportunity to review the guidelines should the need arise in the light of the experience of the parallel run.

Basel II provides a framework that better reflects the risks that banks face. In the wake of the recent market crisis, the importance of the prompt implementation of the new framework has been highlighted in that it would help address some of the weaknesses identified in the risk management structures of banking institutions. Further work to enhance the framework has already been initiated by the Basel Committee. Banks in Mauritius are committed to the implementation of the Basel II framework. Their risk management structures and information systems have been enhanced in order to implement the standardised approaches of the framework. The more advanced approaches require banks to have historical data on their loan exposures and losses for at least 5 years. In this respect, the Bank would provide guidance to banks on the minimum requirements to be met to qualify for the advanced approaches.

PERFORMANCE OF THE BANKING SECTOR

Overview

The performance of the banking sector continued to improve during the year 2007-08 with growth in the banks' overall activities. During the fiscal year, the on-balance sheet assets of banks increased by Rs105,383 million, or 16.9 per cent, from Rs623,899 million at end-June 2007 to Rs729,282 million at end-June 2008, compared to a growth of 27.0 per cent in the preceding year. Off-balance sheet items also increased by 21.1 per cent, from Rs44,498 million to Rs53,908 million during the same period.

Banks' total advances grew by Rs51,780 million, or 17.0 per cent, from Rs304,536 million as at end-June 2007 to Rs356,316 million at end-June 2008, compared to a rise of 36.5 per cent in the preceding year. The ratio of total advances to total assets stood at 48.9 per cent at end-June 2008 and 48.8 per cent at end-June 2007.

Total deposits of banks went up by Rs101,923 million, or 23.4 per cent, from Rs435,154 million at end-June 2007 to Rs537,077 million at end-June 2008, compared to a growth rate of 26.3 per cent in the previous year. Deposits represented 73.6 per cent of banks' total funds at end-June 2008 against 69.7 per cent a year earlier.

During the same period, banks' investment in Treasury Bills, Government Securities and Bank of Mauritius Bills expanded by Rs15,760 million or 34.3 per cent, from Rs45,986 million to Rs61,746 million compared to a decrease of Rs1,959 million, or 4.1 per cent in 2006-07. The share of such investment in banks' total assets increased from 7.4 per cent at end-June 2007 to 8.5 per cent at end-June 2008.

Risk Weighted Capital Adequacy Ratio

Capital adequacy ratio is the measure of the adequacy of a bank's capital resources in relation to its risk-weighted assets and banks in Mauritius are required to maintain, at all times, a minimum capital adequacy ratio of 10 per cent. It is based on a concept of weighing the

Table 2.1: Risk Weighted Capital Adequacy Ratio *(Rs million)*

As at end of period	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Tier 1 Capital	32,617	32,719	33,184	39,352	40,220
Tier 2 Capital	7,855	7,716	7,397	7,133	7,641
Total Gross Capital	**40,472**	**40,435**	**40,581**	**46,485**	**47,861**
Deductions	2,117	2,242	2,283	3,118	3,218
Total Net Capital (A)	**38,355**	**38,193**	**38,298**	**43,367**	**44,643**
Total Risk Weighted Assets (B)	**247,582**	**266,824**	**257,960**	**266,730**	**271,272**
Risk weighted on-balance sheet assets	227,151	244,598	235,573	244,450	249,604
Risk weighted off-balance sheet assets	18,787	20,565	20,329	20,936	20,274
Foreign exchange rate and interest rate related contracts	726	856	656	502	503
Foreign currency exposure	918	805	1,402	842	891
Risk Weighted Capital Adequacy Ratio -excluding Operational Risk (A/B)	**15.5%**	**14.3%**	**14.8%**	**16.3%**	**16.5%**
Total Risk Weighted Assets for Operational Risk (C)	**19,140**	**19,686**	**19,313**	**20,783**	**23,073**
Total Risk Weighted Assets (B+C)	**266,721**	**286,510**	**277,273**	**287,513**	**294,345**
Overall Ratio	**14.4%**	**13.3%**	**13.8%**	**15.1%**	**15.2%**

Source : Supervision Division

on and off-balance sheet exposures according to their perceived level of risks and ultimately measuring the capital base against total risk weighted assets.

Table 2.1 shows the risk weighted capital adequacy ratios maintained by banks on a quarterly basis from end-June 2007 through to end-June 2008.

At end-June 2008, all banks maintained a capital adequacy ratio in excess of the minimum requirement of 10 per cent, with ratios ranging from 10.2 per cent to 99.6 per cent.

The risk weighted capital adequacy ratio of banks increased from 14.4 per cent at end-June 2007 to 15.2 per cent at end-June 2008. This increase was the result of a higher growth rate of 16.4 per cent in the aggregate capital base as opposed to a growth of only 10.4 per cent registered in the total risk weighted assets.

Aggregate capital base comprising tier 1 and tier 2, net of deductions, increased by Rs6,288 million or 16.4 per cent from Rs38,355 million at end-June 2007 to Rs44,643 million at end-June 2008. The share of tier 1 capital in gross capital increased from 80.6 per cent at end-June 2007 to 84.0 per cent at end-June 2008 indicating a better regulatory capital.

Table 2.2 below shows the structure of the assets of banks categorized in the different risk buckets. The total assets in the table excludes the assets of foreign banks pertaining to segment B activities, provision for depreciation made on fixed assets and provision made on impaired assets.

At end-June 2008, banking sector's on-balance sheet assets in the 20 per cent risk weight bucket accounted for the highest share at 41.0 per cent as compared to 39.0 per cent a year earlier while assets held in the zero per cent risk weight bucket represented 19.3 per cent of total on-balance sheet assets as compared to 18.2 per cent at end-June 2007.

Assets held in the 10 per cent, 50 per cent and 100 per cent risk weight buckets for the year 2007-08 represented respectively 0.1 per cent, 3.4 per cent and 36.1 per cent of total on-balance sheet assets as compared to 0.2 per cent, 3.4 per cent and 39.2 per cent respectively, in the year 2006-07.

Non-Performing Advances

Total non-performing advances (impaired credits) of banks went up by 20.0 per cent from Rs7,220 million at end-June 2007 to Rs8,667 million at end-June 2008. The ratio of non-performing advances to total advances, however, remained constant at 2.4 per cent at end-June 2007 and end-June 2008.

Specific provisions for loan losses made by banks soared by 24.2 per cent from Rs3,886 million at end-June 2007 to Rs4,826 million at end-June 2008. Consequently, the ratio of specific provisions to non-performing advances went up from 53.8 per cent at end-June 2007 to 55.7 per cent at end-June 2008 indicating a higher coverage ratio for impairment. Likewise, provisions on portfolio assessed advances grew from Rs1,008 million at end-June 2007 to Rs1,224 million as at end-June 2008.

Profitability

The consolidated position of the profit and loss accounts of banks is based on the combined audited data available at different financial year-ends. All banks, with the exception of one bank, realized profits during the year 2007/08.

Table 2.2: Structure of Assets in the Banking Sector *(Rs million)*

Assets risk weighted at:	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
0%	84,899	85,875	90,282	82,264	104,912
10%	852	1,059	815	579	787
20%	181,698	199,550	230,038	223,496	222,550
50%	16,004	16,747	17,537	17,993	18,678
100%	182,724	196,209	180,715	190,696	195,676
Total	**466,177**	**499,440**	**519,387**	**515,028**	**542,603**

Source : Supervision Division

Table 2.3: Consolidated Profit Performance of Banks			(Rs million)
	2005/06	2006/07	2007/08
Total Interest Income	21,250	30,742	39,739
Interest Income from Advances	13,130	16,809	22,190
Interest on Securities	3,577	3,983	4,815
Interest on Placements with other banks	4,046	9,469	12,294
Other Interest Income	497	481	440
Total Interest Expense	12,000	19,736	26,875
Interest Expense on Deposits	8,461	13,673	18,819
Other Interest Expense	3,539	6,063	8,056
Net Interest Income	9,250	11,006	12,864
Add : Non-interest Income	4,130	5,263	6,423
Operating Income	13,380	16,269	19,287
Less : Staff Costs	2,065	2,670	3,173
Other Operating Expenses	3,145	3,089	3,838
Operating Profit before Bad and Doubtful Debts and Taxation	8,170	10,510	12,276
Less : Charge for Bad and Doubtful Debts	512	615	1,128
Operating Profit	7,658	9,895	11,148
Add : Share of Profits in Subsidiaries and Associates	232	0	0
Add/(Less) : Exceptional Items	(10)	18	0
Profit before Tax	7,880	9,913	11,148
Less : Provision for Income Taxes	991	993	1,231
Profit after Tax	6,889	8,920	9,917

Source : Supervision Division

Table 2.3 above shows the consolidated performance of banks during the past three financial years ended 31 March.

During the year 2007/08, growth in profits was driven mainly by higher interest income. Total income of banks increased by 28.2 per cent or Rs 10,157 million from Rs36,005 million in 2006/07 to Rs46,162 million in 2007/08. Interest earned on advances, placements and investments in securities continued to be the main source of income for banks, accounting for an average of 85.0 per cent of their total income through the years 2005/06 to 2007/08.

Net Interest Income

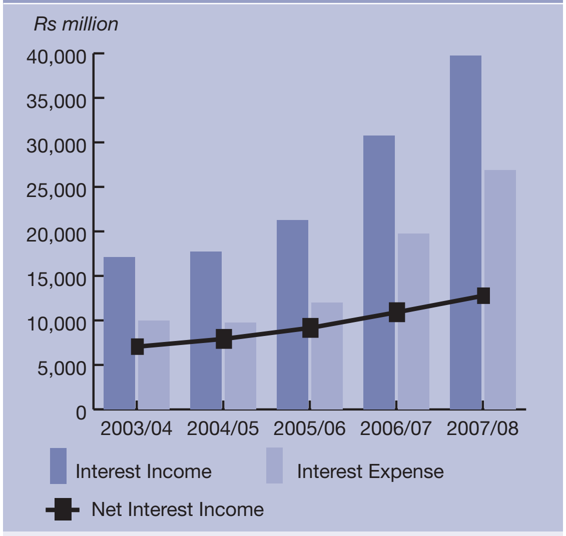
Interest income rose by 29.3 per cent or Rs8,997 million from Rs30,742 million to Rs39,739 million in 2007/08 as compared to a growth of 44.7 per cent achieved in 2006/07. Interest earned on advances contributed Rs5,381 million or 59.8 per cent of the growth to reach Rs22,190 million in 2007/08. It represented 55.8 per cent of total interest income as compared to 54.7 per cent in 2006/07. Likewise, interest income derived from placements with banks shot up by 29.8 per cent to reach Rs12,294 million as compared to Rs9,469 million in 2006/07. Similarly, interest earned on securities increased by Rs832 million or 20.9 per cent reaching Rs4,815 million in 2007/08 as compared to Rs3,983 million.

Interest expense, comprising interest paid on deposits and borrowings from banks and other financial institutions, stood at Rs26,875 million during 2007/08, rising by Rs 7,139 million or 36.2 per cent over the previous period.

Interest paid on deposits, which rose significantly by 37.6 per cent in 2007/08 or Rs5,146 million to Rs18,819 million, was mainly attributed to a substantial rise in the volume of deposits mobilized by banks as well as an increase in related cost. Further, the interest paid on borrowed funds from banks and other institutions, which constituted 30.0 per cent of total interest expense, paid by banks increased substantially by Rs1,993 million or 32.9 per cent mainly due to a higher cost of borrowing of Rs8.0 per Rs100 in 2007/08 against Rs6.5 in 2006/07.

Interest earned on Rs100 of advances increased by only Rs0.54 while cost per Rs100 of deposits rose by Rs0.76. Consequently,

Chart 2.1: Trend in Net Interest Income



Source : Supervision Division

the interest spread dropped from Rs4.04 to Rs3.82.

Overall, net interest income increased by Rs1,858 million or 16.9 per cent to reach Rs12,864 million in 2007/08 from Rs11,006 million in 2006/07. Chart 2.1 shows the trend in net interest income for banks from 2003/04 through 2007/08.

Non-Interest Income

Non-interest income grew by 22.0 per cent in 2007/08 as compared to a growth rate of 27.4 per cent in 2006/07. Income generated by banks from their non-core activities continued to be an important source of income. Income arising from fees and commission, and profit from dealing in foreign currencies contributed to 80.6 per cent and 86.5 per cent of total non-interest related revenue in 2006/07 and 2007/08 respectively. Fee-related income and profit arising from dealing in foreign currencies grew by 8.9 per cent and 57.8 per cent or by Rs209 million and Rs1,103 million respectively in the same period.

Non-Interest Expenses

Non-interest expenses consisting of staff costs and other operating expenses increased by 21.7 per cent in 2007/08, rising to Rs7,011 million as compared to an increase of 10.6 per cent recorded in 2006/07. Although employment in the banking sector went up by 15.4 per cent, the ratio of staff costs to operating income rose only marginally by 0.1 per cent between 2006/07 and 2007/08. On the other hand, other operating expenses increased by 24.2 per cent to reach Rs3,838 million in 2007/08.

The ratio of non-interest expenses to gross operating income (net of charge for bad and doubtful debts) increased from 36.8 per cent in 2006/07 to 38.6 per cent in 2007/08.

Operating Profit

During 2007/08, banks realised operating profit of Rs12,276 million before providing for bad and doubtful debts, i.e an increase of Rs1,766 million or 16.8 per cent over that of Rs10,510 million recorded during 2006/07.

Profit before tax achieved by banks for 2007/08 reached Rs11,148 million, 12.5 per cent higher than the pre-tax profit of Rs9,913 million realised in 2006/07. The improvement was attributable to substantial growth of both interest and non-interest income.

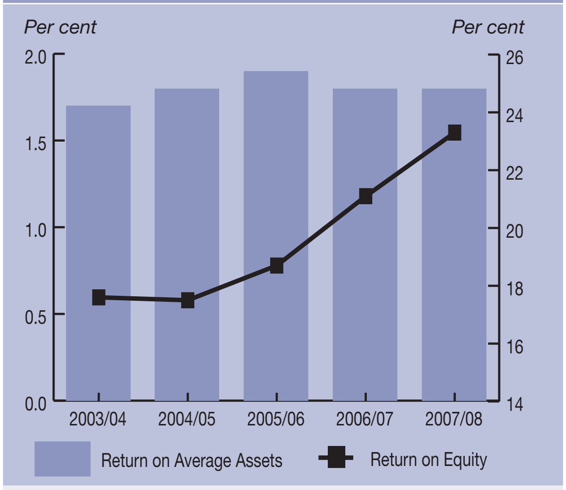
Return on Average Assets and Equity

The return on average assets and return on equity are key performance indicators which reflect on the efficiency of banks in deploying their resources.

The pre-tax return on average assets increased from 1.67 per cent to 1.71 per cent in 2007/08. The pre-tax return on average assets of individual banks ranged from a negative of 1.43 per cent to a positive of 3.2 per cent in 2007/08. With the exception of one bank, all banks recorded a positive return on average assets in 2007/08. Five banks achieved a pre-tax return on average assets of over 2.0 per cent. The negative returns on average assets realized by the one bank were mainly attributable to very high operating expense when compared to its operating profits.

The post-tax return on equity improved from 21.1 per cent in 2006/07 to reach 23.0 per cent in 2007/08. For individual banks, the post-tax return on equity ranged from a negative 42.4 per cent to a positive of 46.6 per cent in 2007/08 with two banks achieving a return on equity of over 40.0 per cent during the same year.

Chart 2.2: Return on Average Assets and Equity



Based on combined audited data for financial years ended 30 June, 31 December and 31 March.
All figures are for the period.

Chart 2.2 shows the variations in return on average assets and equity over the period 2003/04 to 2007/08.

NON-BANK FINANCIAL INSTITUTIONS

At 30 June 2008, thirteen non-bank deposit-taking institutions (NBDTIs) were licensed under section 12 (2) of the Banking Act 2004. Their total assets amounted to Rs35,752 million at end-June 2008. Total deposits mobilized by these institutions stood at Rs23,968 million, representing 67.0 per cent of their resources.

Total credit facilities extended by NBDTIs amounted to Rs27,005 million and accounted for 75.1 per cent of total assets. Securities, placements and other investments stood at Rs6,610 million at end-June 2008.

The overall profitability of NBDTIs' operations improved during the period under review. The consolidated profitability figures are based on the audited results of NBDTIs as of 30 June, 30 September and 31 December.

Total income of NBDTIs registered a growth of 14.5 per cent, going up from Rs3,527 million in 2006/07 to Rs4,038 million in 2007/08. Interest on loans and finance leases went up by Rs203 million and Rs176 million respectively, and represented 77.0 per cent of total income in 2007/08. Non-interest income grew by 8.3 per cent in 2007/08 and constituted 10.0 per cent of total income for the period under review. The remaining income was derived from interest on securities and placements with banks.

Total interest expense which is made up mainly of interest paid on deposits and borrowings from banks and other financial institutions, stood at Rs2,035 million in 2007/08 as against Rs2,349 million in 2006/07. Interest expense on deposits which constituted 78.6 per cent of total interest expense increased by 24.8 per cent from Rs1,846 million in 2006/07 to Rs2,303 million in 2007/08. The cost of borrowings from banks and financial institutions posted an increase of Rs12 million during 2007/08. Net interest income decreased by Rs6 million or 0.7 per cent from Rs806 million in 2006/07 to Rs800 million in 2007/08.

NBDTIs posted an operating profit (before bad and doubtful debts and taxation) to the tune of Rs730 million during the year under review, representing an increase of 3.0 per cent compared to 2006/07. The profit before tax went up by 2.5 per cent to reach Rs648 million in 2007/08. The charge for bad and doubtful debts increased from Rs77 million in 2006/07 to Rs82 million in 2007/08.

The pre-tax return on average assets deteriorated slightly from 2.1 per cent in 2006/07 to 1.9 per cent in 2007/08. On the other hand, the post-tax return on equity recorded a slight worsening from 12.4 per cent in 2006/07 to 10.9 per cent in 2007/08.

3 Financial Markets Developments

MONEY MARKET ACTIVITY

On the money market, conditions remained liquid with an estimated monthly average excess of Rs2,064 million during 2007-08. The Bank, based on its daily liquidity-forecasting framework, carried out open market operations to mop up excess liquidity from the money market. In April 2008, with a view to strengthen the Monetary Policy Framework implemented in December 2006, the Bank of Mauritius announced a series of operational changes in its management of liquidity with Bank of Mauritius Bills and Government of Mauritius Treasury Bills being auctioned separately. Since April 2008, auctions of Bank of Mauritius Bills (BOM Bills) are held on Wednesdays when liquidity conditions so require and auctions of Government of Mauritius Treasury Bills are held every week on Fridays. BOM Bills with maturities of 28 days and 56 days have also been introduced. BOM Bills are issued either at fixed rates and/or through auction on a yield basis quoted to two decimal places and the minimum allowable bid is Rs10.0 million and in multiples thereof. The Special Deposits Facility introduced in November 2007 to manage the excess liquidity in the system stemming mainly due to transitory funds from holders of Global Business Licenses has been maintained but the maximum period has been extended from 14 days to 21 days and would henceforth be conducted at 100 basis points below the key Repo Rate. The corridor around the key Repo Rate has been widened from +/- 50 basis points to +/- 125 basis points. Repurchase transactions are conducted at +/- 125 basis points below or above the key Repo Rate. A new Overnight Collateralized Facility at 150 basis points above the key Repo Rate subject to a borrowing quota has been introduced and as lender of last resort the Bank has maintained the Standing Collateralised Facility without any borrowing quota at 400 basis points above the key Repo Rate.

Primary Auctions of Treasury/Bank of Mauritius Bills

In 2007-08, Government continued with the smoothing exercise in determining the nominal amounts of Treasury Bills to be issued so that they were spread out more evenly during the year. The Bank also continued to inform the market of the range for the monthly issues of Treasury Bills.

From July 2007 to March 2008, 39 primary auctions were carried out and Treasury/Bank of Mauritius Bills totalling Rs45,410 million were put on tender. Bids to the tune of Rs102,359 million were received and a total amount of Rs44,344 million was accepted, out of which Bank of Mauritius Bills accounted for Rs13,560 million. Since April 2008, Bank of Mauritius Bills and Government of Mauritius Treasury Bills are being issued separately and as such during April throughout June 2008, 13 primary auctions of Government of Mauritius Treasury Bills have been conducted and the total amount put on tender was Rs15,300 million. Bids received amounted to Rs29,036 million and bids accepted were to the tune of Rs15,263 million. During the same period, 9 primary auctions of Bank of Mauritius Bills were carried out and bids totalling Rs19,210 million were received and bids to the tune of Rs8,900 million were accepted, out of which 28-day Bank of Mauritius Bills accounted for Rs3,280 million i.e. 36.9 per cent.

During 2007-08, given the excess liquidity conditions prevailing in the system, most of the auctions were oversubscribed with a bid-cover ratio ranging between 0.6 and 5.1. The total amount of bids accepted represented 98.2 per cent of the total tender amount compared to 70.9 per cent in 2006-07, and 45.4 per cent of the total amount of bids received compared to 59.0 per cent in the preceding year.

The shares of banks and of the non-bank sector in total bids received were 93.0 per cent and 7.0 per cent, respectively, in 2007-08 compared to 75.9 per cent and 24.1 per cent in 2006-07 as the number of primary dealers increased. During the period under review, a total nominal amount of Rs1,175.0 million of Treasury Bills was acquired at non-competitive bids by the Secondary Market Cell of the Bank of Mauritius at the primary auctions.

In 2007-08, investors' preference for 91-day Bills, 182-day Bills and 364-day Bills accounted for 24.5 per cent, 30.4 per cent and 45.1 per cent respectively of total bids received. At the beginning of the financial year, preference for bidders was mainly skewed towards the shorter end. However, from mid-September 2007 to end-February 2008 bidders' preference shifted towards the 364-day Bills. From the beginning of March 2008 to 18 April 2008 the tendency was for the 91-day and 182-day Bills and at the end of April 2008, the bids received for the 364-day Bills accounted for more than 50 per cent of the total bids received. During May and June 2008, investors' preference again shifted towards the shorter end of the spectrum and at the last auction held during the financial year, more than 80 per cent of the bids received were for the 91-day Bills.

The weighted average yields on Treasury/ Bank of Mauritius Bills of all three maturities moved in line in 2007-08 with the changes in the key Repo Rate. The weighted average yield on 91-day Treasury/Bank of Mauritius Bills moved down by 384 basis points, from 11.16 per cent in July 2007 to a low of 7.32 per cent in June 2008. The weighted average yield on 182-day Treasury/Bank of Mauritius Bills decreased by 417 basis points from 11.44 per cent in July 2007 to a low of 7.27 per cent in May 2008 before moving up to 7.37 per cent in June 2008. The weighted average yield on 364-day Treasury/Bank of Mauritius Bills fell by 378 basis points, from 11.23 per cent in July 2007 to a low of 7.45 per cent in May 2008, before rising to 7.50 per cent in June 2008.

The monthly overall weighted average yield on Treasury/ Bank of Mauritius Bills, which stood at 11.29 per cent in July 2007 fell to 7.33 per cent in May 2008 before rising to 7.37 per cent in June 2008. The overall weighted average yield decreased from 11.09 per cent in 2006-07 to 8.96 per cent in 2007-08.

Auctions of 28-day and 56-day Bank of Mauritius Bills

Given that the excess liquidity in the system was more of a structural nature and stemming mainly due to transitory flows from holders of Global Business Licenses, the Bank

Table 3.1: Auctioning of Treasury / Bank of Mauritius Bills

	Number of Auctions Held	Tender Amount	Amount Received	Amount Accepted[1]	Weighted Average Yield 91-Day	182-Day	364-Day	Overall
			(Rs million)		(Per cent per annum)			
2007								
Jul	4	10,450.0	22,769.0	10,450.0	11.16	11.44	11.23	11.29
Aug	5	3,060.0	9,869.0	3,060.0	9.93	10.16	10.22	10.03
Sep	4	3,100.0	4,379.0	2,632.0	8.98	9.62	9.83	9.45
Oct	4	2,100.0	6,094.0	2,100.0	8.28	9.17	9.50	9.14
Nov	5	5,200.0	11,497.0	5,200.0	8.25	8.59	9.41	9.16
Dec	4	3,800.0	5,516.0	3,202.0	9.04	9.14	10.14	10.03
2008								
Jan	4	5,800.0	13,715.0	5,800.0	8.91	9.00	10.05	9.85
Feb	5	3,400.0	9,012.0	3,400.0	7.82	7.97	8.39	8.26
Mar	4	8,500.0	19,508.0	8,500.0	7.35	7.31	7.70	7.51
Apr	4	1,700.0	6,015.0	1,700.0	7.51	7.54	7.67	7.56
May	5	4,500.0	8,683.0	4,463.0	7.32	7.27	7.45	7.33
Jun	4	9,100.0	14,338.0	9,100.0	7.32	7.37	7.50	7.37
2007-08	52	60,710.0	131,395.0	59,607.0	8.46	9.07	9.25	8.96
2006-07	52	94,875.0	114,074.7	67,291.4	10.78	10.64	11.63	11.09

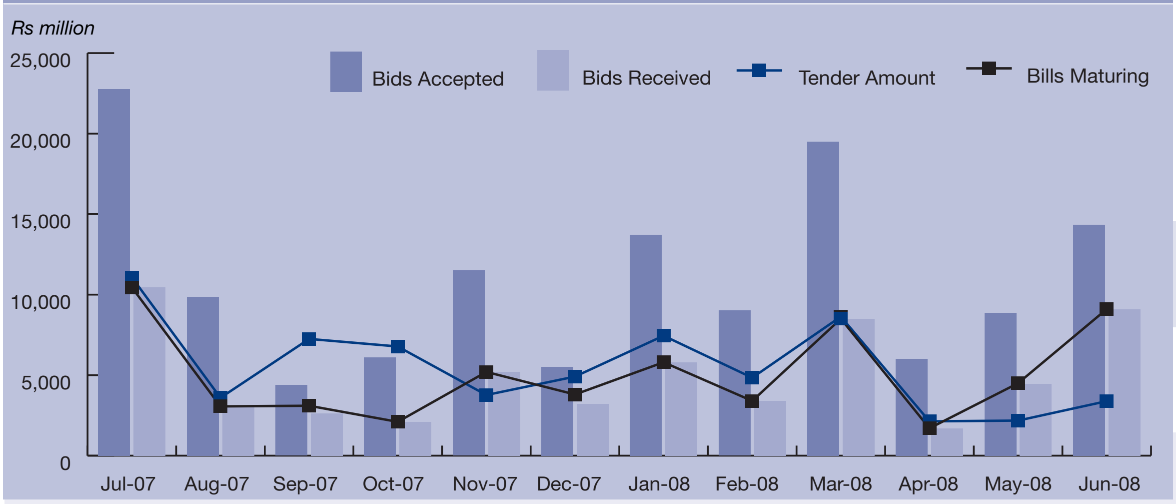
[1] Excludes non-competitive bids acquired by the Secondary Market Cell (SMC) of the Bank of Mauritius.
Note: With effect from April 2008,Bank of Mauritius Bills are being issued separately.
Source: Financial Markets Operations Division.

Table 3.2: Auctioning of Bank of Mauritius Bills: April-June 2008

	Maturing Bills	No of Auctions Held	Tender Amount			Amount Received			Amount Accepted			Weighted Average Yield		
			28-Day	56-Day	Total	28-Day	56-Day	Total	28-Day	56-Day	Total	28-Day	56-Day	Overall
	(Rs million)		(Rs million)			(Rs million)			(Rs million)			(Per cent per annum)		
2008														
Apr	1,516	5	2,700	4,200	6,900	6,840	8,400	15,240	2,700	4,200	6,900	7.60	7.75	7.69
May	3,453	2	*	*	*	940	1,020	1,960	580	820	1,400	7.05	7.15	7.11
Jun	5,038	2	*	*	*	-	2,010	2,010	-	600	600	-	7.15	7.15
Apr-Jun 08	**10,007**	**9**						**19,210**			**8,900**	**7.50**	**7.60**	**7.56**

** Amount put on tender not specified*
Source :Financial Markets Operations Division.

Chart 3.1: Auctioning of Treasury / Bank of Mauritius Bills



Source :Financial Markets Operations Division.

opted for the issue of Bank of Mauritius Bills with maturities of 28 and 56 days. As such, 9 primary auctions of Bank of Mauritius Bills were carried out at fixed yields which were adjusted in line with changes in the key Repo Rate. Bank of Mauritius Bills with maturity of 28-day and 56-day which were initially issued at the yields of 7.60 per cent per annum and 7.75 per cent per annum respectively, were subsequently adjusted to 7.05 per cent per annum and 7.15 per cent per annum respectively following the decrease of 50 basis points in the key Repo Rate on 2 May 2008. During April to June 2008, the overall weighted average yield of the two maturities was 7.56 per cent per annum. The total amount of bids accepted represented 46.3 per cent of the total amount received.

During 2007-08, a total amount of Rs22,460 million Bank of Mauritius Bills was issued against a maturing amount of Rs21,954.2 million.

Table 3.1 and Charts 3.1 and 3.2 give detailed information on the auctioning of Treasury/Bank of Mauritius Bills in 2007-08 while Table 3.2 gives information on the issue of Bank of Mauritius Bills during period April - June 2008.

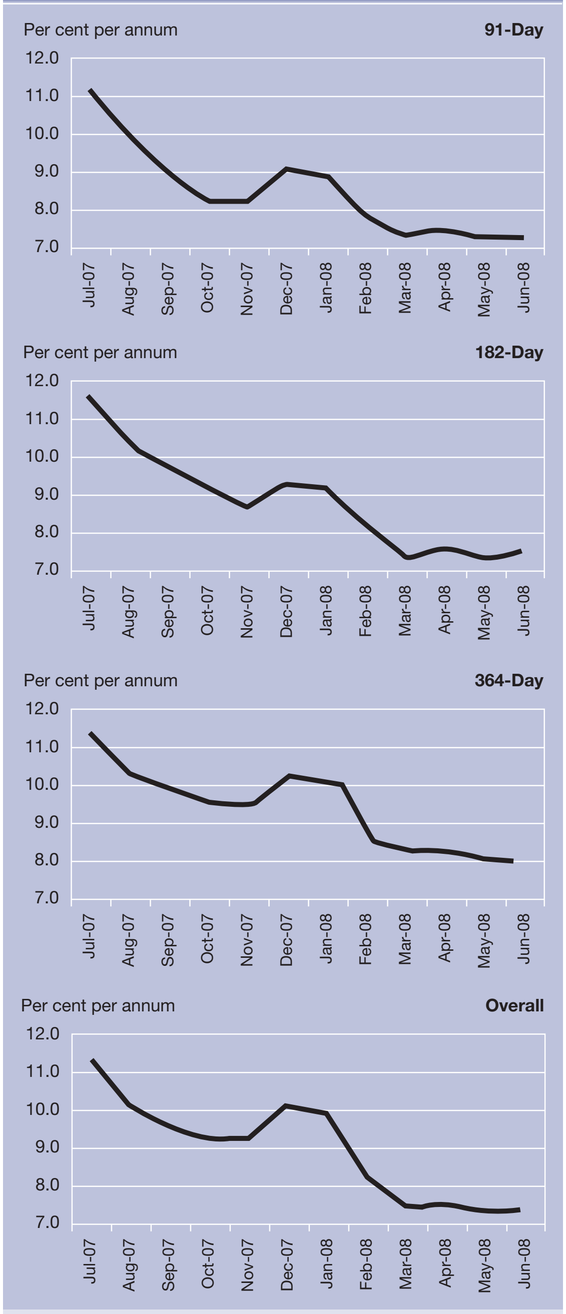
Repurchase Transactions

Given the structural nature of the liquidity prevailing in the market during 2007-08 and considering the transitory flows, the Bank did not carry out repurchase transactions but rather managed the excess liquidity through the issue of Bank of Mauritius Bills and the conduct of Special Deposit Facility. Moreover, during the year under review, no repurchase transactions among banks were reported to the Bank.

Special Deposit Facility

Since November 2007 the Bank introduced a Special Deposit Facility to manage the excess liquidity. With the implementation of the new liquidity management regime in April 2008, the

Chart 3.2: Weighted Average Yields on Treasury / Bank of Mauritius Bills at Primary Auctions



Source :Financial Markets Operations Division.

Special Deposit Facility is now being conducted at 100 basis points against 125 basis points below the key Repo Rate and the maximum period has been extended from 14 days to 21 days. Under this Facility, transactions for a total amount of Rs11,225 million was conducted during 2007-08.

Table 3.3 gives detailed information on Special Deposit Facility conducted in 2007-08.

Table 3.3 : Special Deposit Facility: November 2007 - June 2008

Period	Amount (Rs million)	Period (days)	Rate (Per cent per annum)
Nov 07	550	14	8.00
Dec 07	-	-	-
Jan 08	-	-	-
Feb 08	1,000	14	7.75
Mar 08	7,675	14	7.25-7.75
Apr 08	2,000	21	7.50
May 08	-	-	-
Jun 08	-	-	-
2007-08	11,225	14-21	7.25-8.00

Source :Financial Markets Operations Division.

Interbank Transactions

The interbank money market allows liquidity redistribution among banks. Funds are available either at call (overnight), at short notice (up to seven days) or at term (more than seven days) on a non-collateralised basis.

In 2007-08, a decrease of 2.92 per cent in total turnover was recorded in interbank transactions, which amounted to Rs136,225 million compared to Rs140,325 million in 2006-07. The daily average amount of interbank transactions decreased from Rs394 million in 2006-07 to Rs379 million in 2007-08.

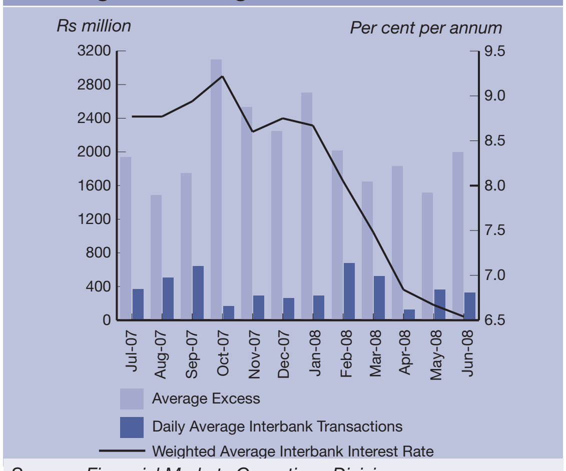
Transactions were mainly carried out in the call money market where they totalled Rs87,668 million, representing a decrease of 20.9 per cent compared to the previous year. Call money transactions peaked at Rs1,210 million in August 2007 and were at a low of Rs9 million in October 2007.

During 2007-08, transactions at short notice on the interbank money market totalled Rs18,828 million, representing a daily average amount of Rs138 million compared to Rs162 million during 2006-07. Transactions at short notice were at a peak of Rs620 million in July 2007 and at a trough of Rs15 million in September 2007 and April 2008.

Transactions at term on the interbank money market accounted for a total amount of Rs29,729 million. This represented a daily average amount of Rs130 million during 2007-08 compared to Rs131 million during 2006-07. Transactions at term were at a peak of Rs425 million in March 2008 and at a trough of Rs15 million in May 2008.

From July 2007 to January 2008, when the key Repo Rate stood at 9.25 per cent, the range of interest rates of the interbank transactions moved in the range of 8.00 to 9.75 per cent. When the key Repo Rate was reduced by 25 basis points on 6 February 2008, the interbank rates fell accordingly and were between 7.50 per cent and 8.50 per cent until 24 March 2008 when there was a cut of 50 basis points in the key Repo Rate. As a result the interbank rates decreased further and moved between 6.75 per cent and 8.20 per cent. With a further reduction of 50 basis points on 2 May 2008, the interbank rates moved downwards between 6.35 per cent and 7.15 per cent. In 2007-08, interbank interest rates thus fluctuated within a range of 6.35-9.75 per cent compared to a range of 3.50-12.75 per cent in 2006-07. Rates on the call money market fluctuated between 6.35 per cent and 9.50 per cent in 2007-08 compared to a range of 3.50-12.75 per cent in 2006-07. The range of interest rates on money at short notice varied between 6.40 and 9.00 per cent in 2007-08 compared to a range of 4.75-12.50 per cent in 2006-07 while the interest rate on transactions at term was in the range of 6.40-9.75 per cent in 2007-08 compared to a range of 6.00-12.50 per cent in 2006-07.

Chart 3.3: Excess Liquidity, Interbank Transactions and Weighted Average Interbank Interest Rate



Source : Financial Markets Operations Division.

The weighted average call money interest rate increased by 15 basis points, from 7.92 per cent in 2006-07 to 8.07 per cent in 2007-08 while the weighted average interest rate on transactions at short notice decreased by 181 basis points, from 9.70 per cent in 2006-07 to 7.89 per cent in 2007-08. The weighted average interest rate on transactions at term decreased by 188 basis points from 10.40 per cent in 2006-07 to 8.52 per cent in 2007-08. Overall, the monthly weighted average interbank interest rate decreased by 21 basis points, from 8.36 per cent in 2006-07 to 8.15 per cent in 2007-08.

Tables 3.4 and 3.5 as well as Chart 3.3 give details on interbank transactions and interbank interest rates in 2007-08.

Table 3.4: Interbank Transactions *(Rs million)*

	Money at Call			Money at Short Notice			Money at Term			Total Transactions		
	Peak	Trough	Daily Average	Peak	Trough	Daily Average	Peak	Trough	Daily Average	Peak	Trough	Daily Average
2007												
Jul	710	35	279	620	90	174	50	50	50	1,300	35	369
Aug	1,210	102	463	140	90	103	400	400	400	1,355	102	509
Sep	955	80	464	150	15	61	400	100	344	1,355	180	646
Oct	380	9	104	-	-	-	200	200	200	580	20	169
Nov	765	15	209	27	27	27	250	250	250	765	15	291
Dec	500	20	207	250	30	187	250	50	94	570	50	262
2008												
Jan	494	10	124	-	-	-	225	100	213	494	100	294
Feb	685	50	398	425	50	228	275	75	202	985	210	679
Mar	845	20	389	340	50	146	425	40	179	1,270	40	525
Apr	650	25	113	100	15	38	23	23	23	673	23	128
May	650	45	279	160	60	105	70	15	50	750	35	365
Jun	815	27	229	195	30	95	59	25	36	1,014	79	328
2007-08	**1,210**	**9**	**318**	**620**	**15**	**138**	**425**	**15**	**130**	**1,355**	**15**	**379**
2006-07	**1,295**	**1**	**313**	**600**	**15**	**162**	**290**	**25**	**131**	**1,651**	**10**	**394**

Source : Financial Markets Operations Division.

Table 3.5: Interbank Interest Rates								(Per cent per annum)
	Money at Call		Money at Short Notice		Term Money		Total Transactions	
	Weighted Average Rate of Interest	Range of Interest Rates	Weighted Average Rate of Interest	Range of Interest Rates	Weighted Average Rate of Interest	Range of Interest Rates	Weighted Average Rate of Interest	Range of Interest Rates
2007								
Jul	8.72	8.00-9.00	8.79	8.75-8.85	9.50	9.50	8.77	8.00-9.50
Aug	8.76	8.75-9.00	8.83	8.75-8.85	9.04	9.00-9.15	8.77	8.75-9.15
Sep	8.87	8.75-9.50	8.87	8.75-9.00	9.12	9.00-9.75	8.94	8.75-9.75
Oct	8.84	8.75-9.25	-	-	9.75	9.75	9.22	8.75-9.75
Nov	8.58	8.25-8.75	8.75	8.75	8.62	8.50-8.80	8.60	8.25-8.80
Dec	8.63	8.25-8.75	8.98	8.50-9.00	8.83	8.50-9.25	8.75	8.25-9.25
2008								
Jan	8.21	8.00-8.50	-	-	8.86	8.75-9.00	8.67	8.00-9.00
Feb	8.03	7.50-8.50	8.08	7.80-8.50	8.02	7.80-8.40	8.05	7.50-8.50
Mar	7.36	6.75-8.00	7.35	6.75-8.00	7.76	7.00-8.40	7.48	6.75-8.40
Apr	6.79	6.75-7.00	6.91	6.75-7.20	7.00	7.00	6.84	6.75-7.20
May	6.56	6.40-6.90	6.94	6.50-7.15	6.92	6.40-7.15	6.67	6.40-7.15
Jun	6.43	6.35-6.50	6.64	6.40-7.00	7.01	7.00-7.15	6.54	6.35-7.15
2007-08	**8.07**	**6.35-9.50**	**7.89**	**6.40-9.00**	**8.52**	**6.40-9.75**	**8.15**	**6.35-9.75**
2006-07	**7.92**	**3.50-12.75**	**9.70**	**4.75-12.50**	**10.40**	**6.00-12.50**	**8.36**	**3.50-12.75**

Source :Financial Markets Operations Division

SECONDARY MARKET TRADING

Primary Dealer System

In its efforts to boost the development of the secondary market for securities and to enhance liquidity of the domestic market for these securities, the Bank of Mauritius had established, effective 1 February 2002, a Primary Dealer System for Mauritius. During 2007-08 three additional banks notably Indian Ocean International Bank Limited, Habib Bank Limited and Banque des Mascareignes Ltée were granted primary dealer status thus bringing the total number of primary dealers to nine.

During the period under review, transactions for a total nominal amount of Rs7,631.6 million were conducted by the primary dealers compared to a total value of Rs13,448.9 million during 2006-07. The transactions were mainly with corporates which represented 78.3 per cent of the total amount transacted. Deals conducted by primary dealer banks with non-primary dealer banks accounted for 13.3 per cent, among primary dealer banks accounted for 7.00 per cent and with individuals 1.4 per cent.

Band 8 i.e. with 301 to 364 days to maturity accounted for the majority of the transactions i.e. 47.7 per cent for a total value of Rs1,497.0 million and the range of yields were between 7.26 per cent and 11.69 per cent. The number of transactions in other bands ranged between 11 to 70 for a total value of Rs6,134.6 million with band 7 accounting for Rs1,427.0 million. Yields varied between 6.55 per cent and 11.69 per cent during 2007-08 compared to a range of 6.29-13.52 per cent in 2006-07.

Table 3.6 gives details of transactions conducted by primary dealers from July 2007 to June 2008 while Table 3.7 shows purchases and sales effected over the same period.

Table 3.6: Primary Dealer Activities

Band	Days to Maturity	Number of Transactions	Value (Rs million)	Yield (per cent per annum)
1	2 to 30	11	191.0	6.74-8.59
2	31 to 60	21	816.1	6.95-10.75
3	61 to 90	70	1,389.2	6.55-11.39
4	91 to 135	20	443.9	7.00-11.36
5	136 to 180	48	714.6	7.10-11.48
6	181 to 240	21	1,152.8	7.00-11.40
7	241 to 300	37	1,427.0	7.30-11.50
8	301 to 364	208	1,497.0	7.26-11.69
2007-08		**436**	**7,631.6**	**6.55-11.69**
2006-07		**1,335**	**13,448.9**	**6.29-13.52**

Note: With effect from 03 March 2008, the number of Primary Dealers has increased from eight to nine.
Source : Financial Markets Operations Division

Secondary Market Cell

As part of its efforts to develop the secondary market, the Bank of Mauritius carries out trading of Government securities out of its own portfolio through its Secondary Market Cell (SMC).

In a further move to stimulate activity in the secondary market, the Bank resumed Over The Counter (OTC) sales of Treasury Bills and started sales of Treasury Notes as from 24 July 2007. In this context Treasury Bills of 91, 182 and 364 day maturities, and Treasury Notes of 2, 3 and 4 Years are offered to individuals at the Bank's counters on Tuesdays and Thursdays for settlement on the next working days for amounts ranging from a minimum of Rs50,000 to a maximum of Rs2,000,000.

During 2007-08, the total amount of Treasury Bills and Treasury Notes sold over the counter stood at Rs468 million, of which Treasury Bills amounted to Rs319 million and Treasury Notes to Rs149 million respectively. Among the three maturities of Treasury Bills sold, 364-day Bills were the most popular with total sales amounting to Rs256 million, i.e. 80 per cent. Furthermore individuals expressed their preference for the 2-Year maturity by purchasing Rs61 million nominal Treasury Notes, i.e. 41 per cent, of the total Treasury Notes sold by the Bank.

The Bank of Mauritius continued its sales of Treasury Bills Over The Counter at its Rodrigues Office and during the period July 2007 to June 2008, total sales of Treasury Bills and Treasury Notes amounted to Rs7 million.

The Bank of Mauritius continued to offer on sale Treasury Bills on the Stock Exchange of Mauritius through licensed stockbroking companies to Mauritian citizens only, for amounts of Rs2 million per order and during the year under review total sales amounted to Rs8 million compared to Rs116.8 million in 2006-07 mainly as a result of the drop in the yields offered.

On an overall basis, Government securities, comprising Treasury Bills and Treasury Notes purchased and sold by the SMC in 2007-08 amounted to Rs1,417 million and Rs506 million, respectively, and were significantly lower than in 2006-07 when purchases and sales totalled Rs63,494 million and Rs61,821 million, respectively.

Table 3.7: Purchases and Sales of Treasury/Bank of Mauritius Bills By Primary Dealers [1]

	Purchases		Sales		Total Transactions [1]		Range of Yields
	Volume	Value *(Rs million)*	Volume	Value *(Rs million)*	Volume	Value *(Rs million)*	*(Per cent per annum)*
2007							
Jul	1	0.5	109	3,605.7	110	3,606.2	10.70-11.69
Aug	8	658.8	59	788.3	66	1,370.5	8.85-11.00
Sep	11	420.3	54	994.2	55	999.5	8.59-10.75
Oct	3	78.5	23	14.1	26	92.6	8.20-9.55
Nov	1	6.7	19	85.1	20	91.8	8.40-9.58
Dec	12	255.2	25	44.2	37	299.4	8.23-10.21
2008							
Jan	-	-	34	223.6	34	223.6	9.06-10.15
Feb	8	55.8	19	93.5	27	149.3	7.75-9.60
Mar	2	20.4	7	22.9	8	23.3	7.20-7.75
Apr	2	20.0	15	185.8	15	185.8	6.55-7.70
May	1	130.0	26	272.1	27	402.1	7.00-7.65
Jun	2	11.0	9	176.5	11	187.5	6.74-7.46
2007-2008	**51**	**1,657.2**	**399**	**6,506.0**	**436**	**7,631.6**	**6.55-11.69**
2006-2007	**103**	**2,129.0**	**1,243**	**12,218.6**	**1,335**	**13,448.9**	**6.29-13.52**

[1] Figures do not add up to total purchases and sales as inter-primary dealer transactions, that is, purchases and sales of Treasury/BOM Bills among primary dealers, are accounted for only once.

Note: With effect from 03 March 2008, the number of Primary Dealers has increased from eight to nine.

Source : Financial Markets Operations Division.

Table 3.8: Dealings in Government Securities/Bank of Mauritius Bills

	Amount of Bills Transacted Outside SMC [1]	Amount of Securities Purchased by SMC	Amount of Securities Sold by SMC [2]	Amount of Bills Accepted at Primary Auctions	Net Amount of Securities[3] Sold by Bank of Mauritius (3)+(4)-(2)	Amount of Other Government Securities Transacted	Weighted Average Yield to Buyers on Securities Sold by SMC [4]
	(Rs million)						*(Per cent per annum)*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2007							
Jul	3,606.2	790.0	124.5	10,450.0	9,784.5	0.0	11.20
Aug	1,370.5	400.5	142.8	3,060.0	2,802.3	0.0	11.13
Sep	999.5	100.1	25.5	2,632.1	2,557.5	0.0	10.80
Oct	92.6	0.1	17.5	2,100.0	2,117.4	0.0	10.37
Nov	91.8	0.3	14.6	5,200.0	5,214.3	0.0	10.02
Dec	299.4	0.1	22.7	3,201.9	3,224.5	0.0	10.00
2008							
Jan	223.6	125.1	33.8	5,800.0	5,708.7	0.0	10.08
Feb	149.3	0.0	35.9	3,400.0	3,435.9	0.0	9.89
Mar	23.3	0.4	35.0	8,500.0	8,534.6	0.0	9.55
Apr	185.8	0.0	12.6	1,700.0	1,712.6	0.0	9.41
May	402.1	0.0	26.9	4,463.0	4,489.9	0.0	9.24
Jun	187.5	0.0	14.6	9,100.0	9,114.6	0.0	8.25
2007-08	**7,631.6**	**1,416.6**	**506.4**	**59,607.0**	**58,696.8**	**0.0**	**10.00**
2006-07	**13,448.9**	**63,493.8**	**61,820.6**	**67,292.1**	**65,618.9**	**0.0**	**12.42**

[1] Include transactions by primary dealers [2] Include Treasury Bills sold Over The Counter in Rodrigues and on the Stock Exchange of Mauritius Ltd.
[3] Include Treasury Bills and Treasury Notes [4] Only on Outright Transactions Over the Counter and on the Stock Exchange of Mauritius Ltd.
SMC: Secondary Market Cell of the Bank of Mauritius
Source : Financial Markets Operations Division.

The weighted yield to buyers on Government securities sold by SMC went down by 242 basis points from 12.42 per cent per annum in 2006-07 to 10.00 per cent per annum in 2007-08.

Table 3.8 shows secondary market dealings in Treasury/Bank of Mauritius Bills while Table 3.9 shows trading of Treasury/Bank of Mauritius Bills on the Stock Exchange of Mauritius Ltd.

Table 3.9:Trading of Treasury/ Bank of Mauritius Bills on the Stock Exchange of Mauritius

	Amount Transacted				Yield
	182-Day	364-Day	728-Day	Total	(Per cent
	(Rs million)				*per annum)*
2007					
Jul	-	1.2	-	1.2	10.97-11.03
Aug	-	1.6	-	1.6	10.91-10.97
Sep	-	-	-	-	-
Oct	-	-	-	-	-
Nov	-	-	-	-	-
Dec	-	-	-	-	-
2008					
Jan	-	-	-	-	-
Feb	-	-	-	-	-
Mar	-	5.0	-	5.0	9.09-9.13
Apr	-	0.3	-	0.3	9.09
May	-	-	-	-	-
Jun	-	-	-	-	-
2007-08	**0.0**	**8.1**	**-**	**8.1**	**9.09-11.03**
2006-07	**0.0**	**115.2**	**1.6**	**116.8**	**7.47-13.09**

Source : Financial Markets Operations Division.

Special Line of Credit to the Sugar Industry

In 2001, the Bank of Mauritius with a view to enabling banks to support the restructuring of the Sugar Industry in the context of the Sugar Sector Strategic Plan 2001-2005, had introduced a Special Line of Credit for the sugar sector for an initial amount of Rs1.5 billion, which was subsequently increased to Rs2.0 billion in 2002, and thereafter to Rs2.45 billion.

During 2007-08, no disbursement was made under this facility. The total amount outstanding as at close of business on 30 June 2008 under the Line of Credit stood at Rs806.85 million.

Equity Fund

To support the financing of the National Equity Fund set up in July 2003, the Bank of Mauritius made available to the Development Bank of Mauritius Ltd (DBM) a Special Line of Credit of Rs700 million to be drawn down within 2 years of the setting up of the Fund. Out of the Rs700 million, an amount of Rs450 million was to be utilised by the DBM towards its own participation in the Fund and the balance of Rs250 million was for on-lending by the DBM to the State Investment Corporation (SIC) for its participation in the Equity Fund.

The drawdown period of 2 years expired on 9 July 2005. However, in view of expected future drawdowns up to January 2007, the Bank of Mauritius had reactivated the Special Line of Credit for the National Equity Fund in February 2006 for an amount of Rs90 million on the existing terms and conditions.

During 2007-08, no disbursement was made under this facility. The total amount outstanding as at close of business on 30 June 2008 under the Special Line of Credit stood at Rs62.5 million.

FOREIGN EXCHANGE MARKET

During 2007-08, liquidity on the domestic foreign exchange market was comfortable given that foreign direct investment flows increased on account of significant investment taking place in the tourism sector under the Integrated Resort Schemes. Against the backdrop of high liquidity on the interbank foreign exchange market mainly during the period mid-December 2007 to mid-April 2008 and with a view to smooth out excessive volatility in the rupee exchange rate, the Bank intervened on the domestic foreign exchange market at regular intervals and purchased US dollars, Euros and Pound sterling.

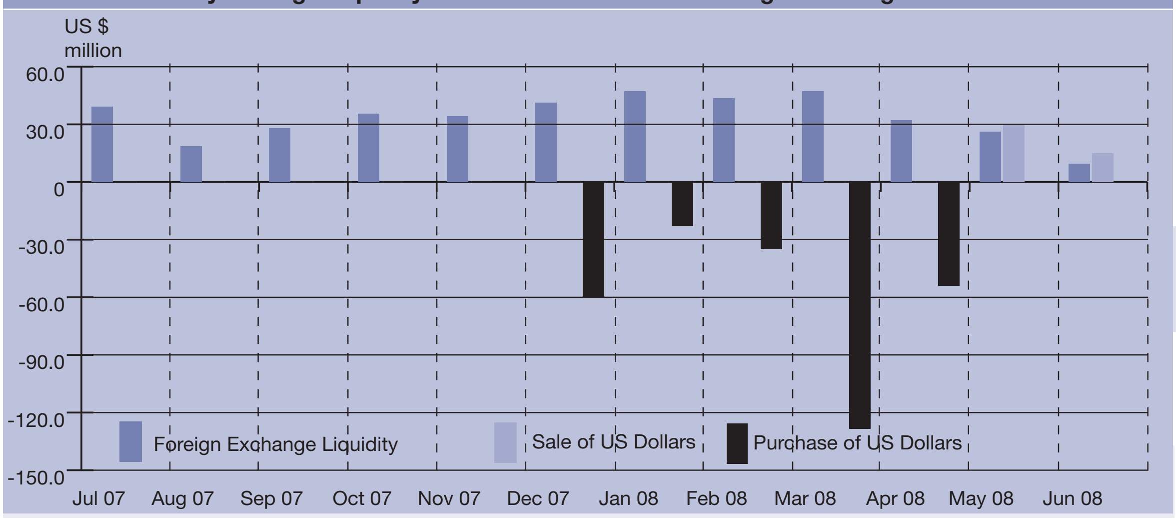
Chart 3.4 shows the monthly average foreign exchange liquidity position of banks and intervention by the Bank during 2007-08.

Interbank Foreign Exchange Market

During 2007-08, turnover on the interbank foreign exchange market increased to an equivalent amount of US$162.22 million compared to an equivalent amount of US$84.20 million in 2006-07. Out of this turnover, purchases of US dollars against the rupee amounted to US$70.51 million compared to a lower amount of US$45.72 million in 2006-07.

Intervention by the Bank of Mauritius during 2007-08 reflected the foreign exchange liquidity condition of the market. From mid-December 2007 to April 2008, the Bank intervened and purchased USD 230.0 million, EUR 46.0 million and GBP 1.0 million. However, during May to June 2008, the foreign exchange liquidity conditions of the banking system decreased mainly due to a reduction in portfolio investment

Chart 3.4: Monthly Average Liquidity and Intervention on the Foreign Exchange Market



Source :Financial Markets Operations Division.

as a result of reduced interest rate differentials following the cut in the key repo rate and in order to prevent any undue volatility in the exchange rate, the Bank intervened and sold USD45.0 million to the market. The range of intervention rates for the sale of US dollars to the market moved between Rs27.25 and Rs27.75 per US dollar and for the purchase of US dollars and Euro the rates were in the range of Rs25.90 and Rs28.50 and Rs40.65 and Rs41.62 respectively. For the Pound sterling the rate of intervention was Rs56.62.

Table 3.10 gives details of monthly transaction on the interbank foreign exchange market and Table 3.11 provides the amount and range of intervention by Bank of Mauritius during period 2007-08.

Table 3.10: Interbank Foreign Exchange Market

	Purchase of US dollar against Rupee *(US$ million)*	Purchase of US dollar against Other Currencies *(US$ million)*	Purchase of Other Foreign Currencies *(US$ million)*	Total Purchases		Opening Interbank Min - Max Ask Rate[1] *(Rs/US$)*
				US dollar Equivalent *(US$ million)*	Rupee Equivalent *(Rs million)*	
2007						
Jul	7.60	1.08	0.57	9.25	288.65	31.0500-31.2600
Aug	2.38	0.96	0.69	4.03	124.61	30.7700-31.0425
Sep	8.48	1.53	0.87	10.88	335.52	30.4575-30.9950
Oct	5.86	0.89	0.84	7.59	230.67	30.2875-30.4325
Nov	3.45	5.52	0.64	9.61	290.58	29.9250-30.3250
Dec	3.96	3.16	1.82	8.94	264.17	28.7000-29.9275
2008						
Jan	5.99	2.34	1.26	9.59	274.18	28.3375-28.7050
Feb	8.43	13.15	2.04	23.62	665.18	27.5000-28.6650
Mar	3.91	18.40	0.87	23.18	621.45	26.2375-27.4750
Apr	4.55	6.63	2.48	13.66	354.72	25.9125-26.2125
May	11.79	7.15	1.86	20.80	567.78	26.1500-27.9875
Jun	4.11	16.68	0.28	21.07	579.89	27.3250-27.8125
2007-08	**70.51**	**77.49**	**14.22**	**162.22**	**4,597.40**	**25.9125-31.2600**
2006-07	**45.72**	**21.68**	**16.80**	**84.20**	**2,709.21**	**30.9550-32.7900**

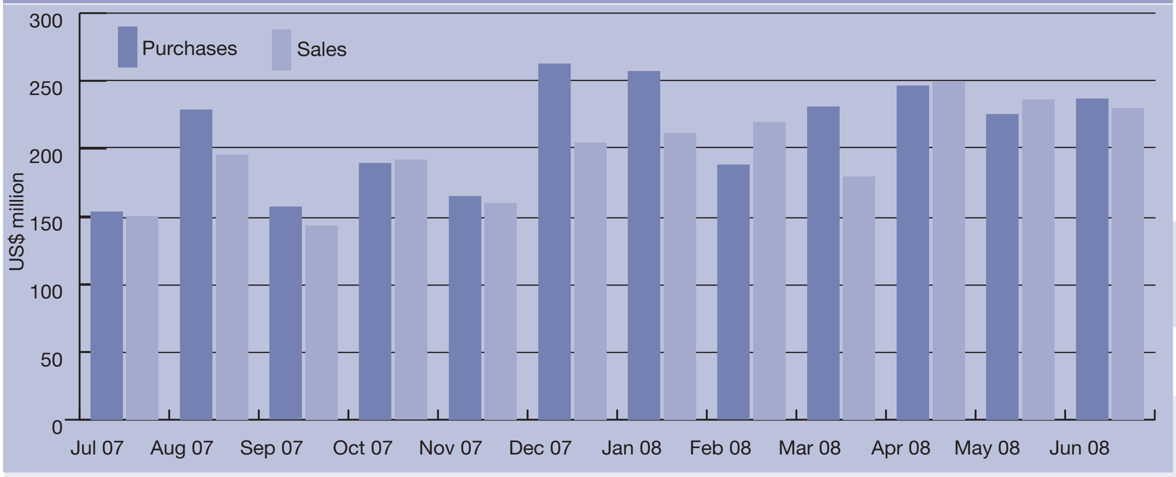
[1] With effect from 23 October 2000, the Rs/US$ ask rate is based on the average of daily wholesale Rs/US$ ask rate of four major banks.
Source :Financial Markets Operations Division.

Table 3.11: Intervention by the Bank of Mauritius on the Interbank Foreign Exchange Market

	Sale of US dollar *(US$ million)*	Range of Intervention *(Rs/US$ Ask Rate)*	Purchase of US dollar *(US$ million)*	Range of Intervention *(Rs/US$ Bid Rate)*	Purchase of EURO *(EUR million)*	Range of Intervention *(Rs/EUR Bid Rate)*	Purchase of GBP *(GBP million)*	Range of Intervention *(Rs/GBP Bid Rate)*
2007								
Jul	0.0	-	0.0	-	0.0	-	0.0	-
Aug	0.0	-	0.0	-	0.0	-	0.0	-
Sep	0.0	-	0.0	-	0.0	-	0.0	-
Oct	0.0	-	0.0	-	0.0	-	0.0	-
Nov	0.0	-	0.0	-	0.0	-	0.0	-
Dec	0.0	-	0.0	-	40.5	41.62	0.0	-
2008								
Jan	0.0	-	21.0	28.20-28.50	0.0	-	1.0	56.62
Feb	0.0	-	35.0	27.20-27.75	0.0	-	0.0	-
Mar	0.0	-	120.0	26.29-26.95	5.5	40.65-41.25	0.0	-
Apr	0.0	-	54.0	25.90	0.0	-	0.0	-
May	30.0	27.60-27.75	0.0	-	0.0	-	0.0	-
Jun	15.0	27.25	0.0	-	0.0		0.0	
2007-08	**45.0**	**27.25-27.75**	**230.0**	**25.90-28.50**	**46.0**	**40.65-41.62**	**1.0**	**56.62**
2006-07	**169.4**	**31.05-32.80**	**252.8**	**31.90-33.00**	**0.0**	**-**	**0.0**	**-**

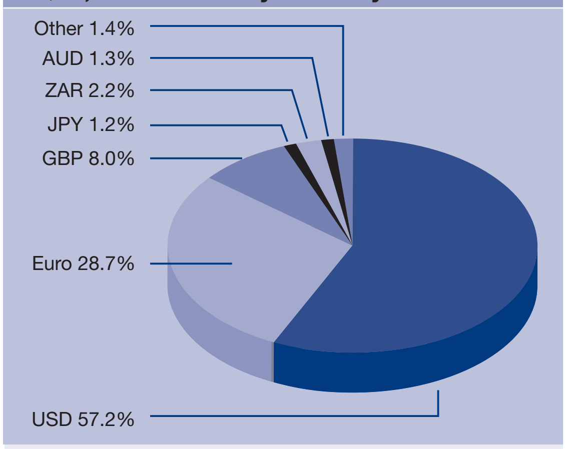
Source :Financial Markets Operations Division.

Chart 3.5: Banks' Transactions above US$30,000: Total Purchases and Sales



Source :Financial Markets Operations Division.

Chart 3.6: Banks' Transactions above US$30,000:Turnover by Currency

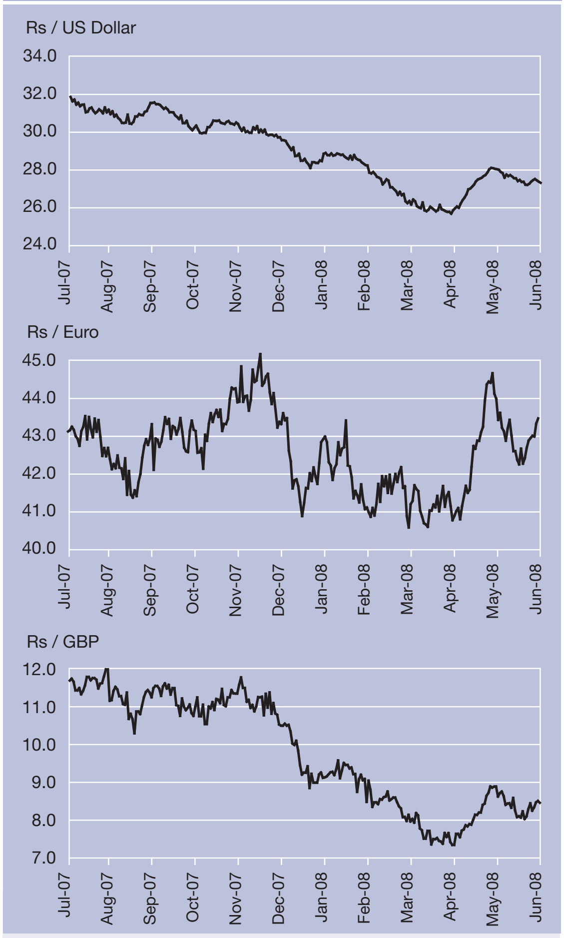


Source :Financial Markets Operations Division.

Foreign Exchange Transactions by Banks

Banks report on a daily basis to the Bank of Mauritius transactions of US$30,000 and above or their equivalent in other foreign currencies. During 2007-08, there was a significant increase in the total transactions reported by banks compared to 2006-07. Total turnover in 2007-08 amounted to USD4,914.4 million compared to USD2,950.3 million in 2006-07 i.e. an increase of USD1,964.1 million. On a currency-wise basis, 57.2 per cent of total transactions were carried out in US dollar, 28.7 per cent in Euro, 8.0 per cent in Pound sterling, 2.2 per cent in South African rand, 1.2 per cent in Japanese yen, 1.3 per cent in Australian dollar and 1.4 per cent in other foreign currencies. Total monthly transactions peaked at an equivalent of US$496.2 million in April 2008 and reached a trough equivalent to US$300.4 million in September 2007.

Chart 3.7: Weighted Average Dealt Rates of the Rupee Against Major Currencies [1]



[1] Daily basis

Source :Financial Markets Operations Division.

The Rs/US$ weighted average dealt ask rates at which transactions of US$30,000 and above were effected moved in line with developments on the international markets and the evolution of foreign exchange liquidity

Table 3.12: Weighted Average Dealt Selling Rates of the Rupee[1]						
	Rs/USD	Rs/EUR (End of Period)	Rs/GBP	Rs/USD	Rs/EUR (Period Average)	Rs/GBP
2007						
Jul	30.989	42.681	62.607	31.317	43.043	63.952
Aug	31.599	43.303	63.606	30.936	42.180	62.523
Sep	30.143	43.133	61.642	30.937	43.002	62.877
Oct	30.550	44.228	63.177	30.398	43.299	62.351
Nov	29.897	44.136	61.590	30.111	44.317	62.685
Dec	28.158	41.615	55.730	29.114	42.525	59.519
2008						
Jan	28.626	43.403	57.548	28.725	42.417	56.896
Feb	27.416	41.937	55.000	28.142	41.428	55.787
Mar	26.042	41.547	52.540	26.687	41.600	53.942
Apr	26.291	41.102	51.852	26.001	41.084	51.811
May	27.952	43.417	55.320	27.558	42.904	54.149
Jun	27.379	43.458	54.565	27.543	42.896	54.222

[1] Calculated on spot transactions of USD30,000 and above, or equivalent, of banks.
Source : Financial Markets Operations Division.

conditions in the domestic market. Between July 2007 and June 2008, the Rs/US$ weighted average dealt ask rates fluctuated between a high of Rs31.8923 in July 2007 and a low of Rs25.7563 in April 2008. Against the euro, the weighted average dealt ask rates varied between a peak of Rs45.1463 in November 2007 and a trough of Rs40.5896 in March 2008 while against the Pound sterling, the weighted average dealt ask rates moved between a high of Rs65.0830 in July 2007 and a low of Rs51.2384 in April 2008.

Charts 3.5 and 3.6 give details on transactions above US$30,000 effected by banks while Chart 3.7 and Table 3.12 show the weighted average dealt rates of the rupee against major currencies during 2007-08.

PUBLIC DEBT MANAGEMENT

The Bank of Mauritius, acting as agent of the Government, raised a total amount of Rs7,252 million through the issues of Five-Year and Long Term Government of Mauritius Bonds in 2007-08 compared to Rs6,000 million in 2006-07.

Of that amount, a total of Rs4,252 million was raised through Five-Year Government of Mauritius Bonds and Rs3,000 million through Long Term Bonds with maturities ranging between 7 and 20 years. In addition, Treasury Bills with maturities of 91, 182 and 364 days, and Treasury Notes with maturities of 2, 3 and 4 years continued to be issued during 2007-08.

Issue of Five-Year Government of Mauritius Bonds

Given the growing interest for Five-Year Government of Mauritius Bonds noted in the previous years, and Government's sustained objective to lengthen the maturity profile of its debt, the amount put on tender at the bi-monthly auctions was increased from Rs500 million in 2006-07 to Rs750 million in 2007-08. As such, six auctions of Five-Year Government of Mauritius Bonds were held in 2007-08 for a total amount of Rs4.5 billion.

The first issue of Five-Year Bonds for 2007-08 was held on 24 August 2007 and the remaining five issues took place on 26 October 2007, 21 December 2007, 29 February 2008, 25 April 2008 and 20 June 2008.

As in the preceding year, the coupon rates for the issues of Five-Year Government of Mauritius Bonds were allowed to be market determined, and were generally set at the lowest accepted yields at the auctions.

The market determined coupon rates for the first three issues held on 24 August, 26 October and 21 December 2007 stood at 10.50, 10.50 and 10.55 per cent per annum respectively. The coupon rate at the auction held in February 2008 came down to 9.85 per cent per annum Following the 25 basis points reduction in the key Repo Rate during that month.

Table 3.13: Auctions of Five-Year Government of Mauritius Bonds

	Auction held on					
	22-Aug-07[1]	24-Oct-07[2]	19-Dec-07[3]	27-Feb-08[4]	23-Apr-08[5]	18-Jun-08[6]
1. Amount of Bonds put on Tender (Rs mn)	750.0	750.0	750.0	750.0	750.0	750.0
2. Value of Bids Received (Rs mn)	1,387.7	502.2	1,019.7	2,573.5	2,264.0	1,362.7
3. Value of Bids Accepted (Rs mn)	750.0	502.2	750.0	750.0	750.0	750.0
4. Interest Rate (% p.a.)	10.50	10.50	10.55	9.85	9.08	8.75
5. Highest Yield Accepted (% p.a.)	11.00	11.55	10.87	10.02	9.15	9.03
6. Weighted Yield on Bids Accepted (% p.a.)	10.64	11.20	10.71	9.99	9.12	8.92
7. Weighted Price of Bids Accepted (%)	99.468	97.374	99.393	99.459	99.842	99.326

1 For Issue on 24 August 2007. 2 For Issue on 26 October 2007. 3 For Issue on 21 December 2007.
4 For Issue on 29 February 2008. 5 For Issue on 25 April 2008. 6 For Issue on 20 June 2008.
Source: Financial Markets Operations Division.

In line with subsequent reductions in the key Repo Rate of 50 basis points each in March and May 2008, the coupon rates were adjusted further at the fifth and sixth issues held in April and June 2008 and stood at 9.08 and 8.75 per cent per annum respectively.

As in the past years, all the auctions of Five-Year Government of Mauritius Bonds held in 2007-08 were oversubscribed with total value of bids received amounting to Rs9,110 million compared to a total tender amount of Rs4,500 million. Total nominal value of bids accepted stood at Rs4,252 million.

At the first auction in August 2007, the weighted yield stood at 10.64 per cent per annum. It went up by 56 basis points at the second auction to 11.20 per cent per annum. Thereafter the weighted yields started to decline steadily in line with the reductions in the key Repo Rate from February 2008 to May 2008. As such, the weighted yields stood at 10.71, 9.99, 9.12 and 8.92 per cent per annum at the last four auctions respectively.

Table 3.13 provides details of the six auctions of Five-Year Government of Mauritius Bonds held in 2007-08.

Issue of Long-Term Government of Mauritius Bonds

As was the case in 2006-07, Bonds with maturities of 7, 13 and 20 years were issued in 2007-08 for a total nominal amount of Rs3,000 million, split in three auctions held on 12 September 2007, 23 January 2008 and 13 March 2008.

The three auctions were oversubscribed highlighting growing demand for the longer term Government instruments by some investors. Total value of bids received at the first auction held on 12 September 2007 was Rs1,498 million compared to a total tender amount of Rs1,000 million and bids accepted for Rs1 billion. At the second auction held on 23 January 2008, total value of bids received was Rs2,403 million compared to a tender amount of Rs1,000 million and bids accepted for an amount of Rs1,000 million. Total value of bids received at the third and last auction held on 13 March 2008 was Rs2,360 million compared to a tender amount of Rs1,000 million and bids accepted for that same amount.

The interest rates on the 7, 13 and 20-year Bonds were fixed at 10.60 per cent, 10.75 per cent and 10.90 per cent per annum, respectively at the first and second auctions. Following the decrease in the key Repo Rate in February 2008, rates on the three types of Bonds issued in March 2008 were reduced to 10.00 per cent, 10.15 per cent and 10.30 per cent per annum respectively.

The weighted yields on bids accepted at the first auction stood at 11.46 per cent, 11.76 per cent and 12.22 per cent per annum for the 7, 13 and 20-year Bonds, respectively. These yields went down to 10.98 per cent, 11.30 per cent and 11.62 per cent per annum, respectively at the second auction. The weighted yields on bids accepted at the third auction went further down to 9.77 per cent, 10.54 per cent and 10.82 per cent per annum respectively reflecting the 50 basis points reduction in the key Repo Rate in the first week of March 2008.

Total value of bids received at the three auctions of Bonds thus amounted to Rs6,261 million, of which a total amount of Rs3,000 million was accepted. The highest value of bids accepted was in the 7-Year Bonds, with a total accepted amount of Rs1,375 million compared to Rs787 million and Rs838 million in the 13-Year and 20-Year Bonds respectively.

Of the total value of bids accepted in the 7-Year maturity, the share of banks amounted to 87 per cent. However banks barely showed interest in the 20-Year maturity. On the other hand, pension funds and insurance companies were the largest bidders in the 13 and 20-Year maturities. Nearly 60 per cent of the total value of bids allotted in the 13-Year maturity went to pension funds and insurance companies and the remaining 40 per cent went to banks. In the 20-Year maturity, the share of insurance companies amounted to 35 per cent and that of pension funds to 65 per cent in the total value of bids allotted.

Details of the auctions of Bonds are given in Table 3.14.

Issue of Treasury Notes

During fiscal year 2007-08, the Bank continued the issues of 2, 3 and 4-year Treasury Notes on a monthly basis starting July 2007.

The total tender amount during 2007-08 for the three maturities was Rs13,600 million compared to Rs14,100 million in 2006-07. The total value of bids received amounted to Rs37,790 million and that of bids accepted to Rs12,580 million compared to Rs22,852 million and Rs11,760 million respectively in 2006-07.

The interest rates on the three types of Treasury Notes were fixed at 10.50 per cent, 10.90 per cent and 11.10 per cent per annum, respectively, for the first and second issues held in July and August 2007. Thereafter these were gradually reduced until the last issue in June 2008 reflecting the decrease in the key Repo Rate. The interest rates were fixed at 10.05, 10.20 and 10.35 per cent per annum in September and October 2007, then at 9.75, 9.90 and 10.05 per cent per annum in November 2007 through to February 2008 respectively. Reflecting the rate reductions in February, March and May 2008, the interest rates were further lowered to 9.20, 9.35 and 9.50 per cent per annum in March and to 8.80, 8.95 and 9.10 per cent per annum in April 2008. In May and June 2008, the interest rates stood at 7.80, 8.20 and 8.50 per cent per annum.

2-Year Treasury Notes amounting to Rs4,250,300,000 that matured on 09 June 2008 were partly converted into 3 and 4-Year Treasury Notes for an amount of Rs411,200,000 and Rs2,100,600,000 respectively.

Details of the auctions of Treasury Notes during 2007-08 are given in Table 3.15.

Table 3.14: Auctions of Government of Mauritius Bonds

	Auction held on								
	12 September 2007[1]			23 January 2008[2]			13 March 2008[3]		
Amount of Bonds put on Tender	Rs1,000.0 million			Rs1,000.0 million			Rs1,000.0 million		
Bonds	7-Yr	13-Yr	20-Y	7-Yr	13-Yr	20-Yr	7-Yr	13-Yr	20-Yr
1. Value of Bids Received (Rs mn)	689.4	522.7	286.2	1,250.9	446.1	705.6	930.0	595.9	834.4
2. Value of Bids Accepted (Rs mn)	460.1	348.9	191.0	520.6	185.7	293.7	394.0	252.5	353.5
3. Interest Rate (% p.a.)	10.60	10.75	10.90	10.60	10.75	10.90	10.00	10.15	10.30
4. Highest Yield Accepted (% p.a.)	11.70	11.90	12.40	11.00	11.40	11.80	10.10	10.65	11.00
5. Weighted Yield on Bids Accepted (% p.a.)	11.46	11.76	12.22	10.98	11.30	11.62	9.77	10.54	10.82
6. Weighted Price of Bids Accepted (%)	95.935	93.356	90.206	98.177	96.299	94.451	101.147	97.273	95.778

[1] Issue of 14 September 2007 :
7-Yr Bonds : 10.60% 7-Year Government of Mauritius Bonds due 14 Sep 2014
13-Yr Bonds : 10.75% 13 -Year Government of Mauritius Bonds due 14 Sep 2020
20-Yr Bonds : 10.90% 20 -Year Government of Mauritius Bonds due 14 Sep 2027

[2] Issue of 25 January 2008 :
7-Yr Bonds : 10.60% 7-Year Government of Mauritius Bonds due 25 Jan 2015
13-Yr Bonds : 10.75% 13 -Year Government of Mauritius Bonds due 25 Jan 2021
20-Yr Bonds : 10.90% 20 -Year Government of Mauritius Bonds due 25 Jan 2028

[3] Issue of 14 March 2008:
7-Yr Bonds : 10.00% 7-Year Government of Mauritius Bonds due 14 Mar 2015
13-Yr Bonds : 10.15% 13 -Year Government of Mauritius Bonds due 14 Mar 2021
20-Yr Bonds : 10.30% 20 -Year Government of Mauritius Bonds due 14 Mar 2028

Source : Financial Markets Operations Division

Table 3.15 Auctions of Treasury Notes

	Amount put on Tender	Value of Bids Received			Value of Bids Accepted			Interest Rate			Weighted Yield on Bids Accepted		
		2Y-TN	3Y-TN	4Y-TN	2Y-TN	3Y-TN	4Y-TN	2Y-TN	3Y-TN	4Y-TN	2Y-TN	3Y-TN	4Y-TN
		(Rs million)						(Per cent per annum)					
2007													
13-Jul	1,200.0	1,377.1	2,308.0	1,497.0	326.5	521.8	351.7	10.50	10.90	11.10	11.58	11.85	11.95
10-Aug	1,200.0	618.0	702.4	1,996.4	266.2	228.7	705.1	10.50	10.90	11.10	10.62	10.88	11.11
21-Sep	800.0	224.0	318.4	587.5	158.6	225.4	416.0	10.05	10.20	10.35	10.14	10.32	10.45
19-Oct	800.0	912.9	664.9	304.8	387.9	282.6	129.5	10.05	10.20	10.35	9.99	10.14	10.67
23-Nov	1,200.0	847.0	669.5	1,547.9	331.7	262.2	606.1	9.75	9.90	10.05	9.75	10.02	10.36
14-Dec	1,200.0	270.0	915.0	1,165.0	137.9	467.2	594.9	9.75	9.90	10.05	10.24	10.20	10.55
2008													
11-Jan	1,200.0	698.2	1,525.0	1,279.0	365.5	327.2	507.3	9.75	9.90	10.05	10.23	10.15	10.45
15-Feb	1,200.0	2,778.0	1,198.0	1,526.0	605.9	261.3	332.8	9.75	9.90	10.05	9.45	9.87	10.10
21-Mar	1,200.0	3,243.8	652.7	987.5	797.0	160.4	242.6	9.20	9.35	9.50	8.80	9.29	9.53
4-Apr	1,200.0	1,300.8	1,725.1	1,349.3	356.8	473.1	370.1	8.80	8.95	9.10	8.28	8.70	9.01
16-May	1,200.0	1,072.9	820.4	527.6	531.8	406.7	261.5	7.80	8.20	8.50	7.70	7.97	8.69
27-Jun	1,200.0	63.6	38.1	78.4	63.6	38.1	78.4	7.80	8.20	8.50	7.75	7.92	8.72
2007-08	**13,600.0**	**13,406.3**	**11,537.5**	**12,846.4**	**4,329.4**	**3,654.7**	**4,596.0**	**7.80-10.50**	**8.20-10.90**	**8.50-11.10**	**7.70-11.58**	**7.92-11.85**	**8.69-11.95**
2006-07	**14,100.0**	**6,434.5**	**6,889.0**	**9,528.6**	**3,334.5**	**3,636.9**	**4,789.0**	**7.60-11.50**	**7.90-11.90**	**8.25-12.15**	**8.05-13.41**	**8.32-13.74**	**8.71-13.85**

Source: Financial Markets Operations Division.

EXCHANGE RATE DEVELOPMENTS

International Developments

The evolution of the US dollar in the financial year 2007-08 was largely influenced by interest rate differentials, high oil prices, and the subprime mortgage crisis which undermined the US economy. Starting July 2007, the US dollar, on average, depreciated against all major currencies, on the sentiment that the housing market correction could eventually slow the economy and force the Fed to relinquish its tightening bias. However, the US dollar regained some footing towards end-July and in August on the release of strong gross domestic product data and a rise in US stocks, which somewhat eased investors' worries about a credit squeeze. As widely expected, the Fed held its benchmark interest rates steady at 5.25 per cent at its meeting on 7 August 2007 but acknowledged higher market volatility and tighter lending conditions had increased the downside risks to the economy. The Fed reaffirmed that inflation was still its main concern. The US dollar was, however, marked by greater volatility thereafter as fallout from the US subprime mortgage crisis seemed to gradually spill over into other markets leading major central banks to inject extra funds into the banking system to ease the credit squeeze. On 17 August 2007, the Fed slashed its discount rate, the interest rate it charges on loans to banks, by 50 basis points while maintaining its federal funds rate at 5.25 per cent.

Weak data releases and fears of a US recession led the US dollar to continue to lose ground against major currencies. At the FOMC meeting of 18 September 2007, the Fed reduced its benchmark interest rates by a further 50 basis points to 4.75 per cent. More bad news from the financial sector with substantial write downs by Merrill Lynch & Co Inc, mostly from bad investments related to risky subprime mortgages, also put pressure on the US dollar. The Fed truncated benchmark interest rates by another 25 basis points to 4.50 per cent in October but moderated expectations for further cuts in short-term rates by saying that inflation risks were roughly equal to the possibility of slower growth.

As worries about US financial institutions' losses in the wake of the credit market turmoil resurfaced during the second week of November 2007, the US dollar came under further pressure. Low US consumer confidence, speculation that countries in the Gulf region were preparing to revalue their currency pegs to the US currency, and market expectations about further interest rate cuts, also added to the dollar's woes. The

Fed decreased its key funds rate by another 25 basis points to 4.25 per cent on 11 December 2007 thus bringing the total interest rate cuts to a full percentage point in 2007. Furthermore, in early December the Fed launched a new temporary term auction facility designed to address elevated market pressures on short-term funding in a concerted action with major central banks.

On 22 January 2008, amid a wave of panic selling in global stock markets possibly arising from fears of a U.S. recession, the US Federal Reserve surprised the market by announcing an emergency rate cut of 75 basis points to 3.50 per cent at an unscheduled meeting. As US economic weakness remained a serious concern, the Fed again cut the target for the Federal funds rate by 50 basis points to 3.00 per cent on 30 January 2008. The US dollar resisted heavy selling pressure for a while on better than expected manufacturing ISM indices and retail sales in January. However, the US currency was unable to secure further gains as credit market concerns accentuated with the bailout of Bear Sterns, the US fourth largest investment bank, which led the Fed to adopt emergency policy measures by extending the discount window loan terms to 90 days from 30 days, a tool not used since the Great Depression. The Fed funds rate was again reduced in March 2008 by 75 basis points, thus widening the interest rate differential between the United States and the Euro zone and undermining the US dollar.

March 2008 US jobs data showing the US economy had shed a more-than-expected 80,000 non-farm jobs, the biggest drop in five years, rekindled worries about a US recession. The Fed reduced the funds rate by 25 basis points to 2.00 per cent on 30 April 2008 so as to calm market turmoil and prevent the US economy from deteriorating sharply. This was the last of the series of rate cuts in 2007-08 as the Fed shifted to a more hawkish tone thereafter given the increasing risks to inflation posed by high and rising food and energy prices. The US dollar drew support from Fed Chairman Ben Bernanke's warning that the weak US currency posed additional risks to inflation. The Fed left interest rates unchanged in June 2008 at 2 per cent but market players started to get convinced that rate hikes could resume later in 2008, resulting in broad US dollar gains.

The euro remained well supported in 2007-08 on the back of positive interest rate differentials and broad-based weakness of the US dollar. As expected, the ECB left rates unchanged at 4.0 per cent in July and reinforced market expectations for a September 2007 hike. However, concerns over European banks' exposure to the US subprime mortgage crisis put the euro under pressure against the US currency in mid-August and sent Euro zone overnight borrowing rates sharply up as banks scrambled for cash. This prompted the ECB to pump significant amount of funds into the banking system to ward off the crisis, cooling expectations of a September 2007 interest rate rise that indeed did not materialise. The interest rate was again left unchanged in October 2007. The ECB cautioned that although risks to European growth were weighed downwards against the backdrop of market uncertainty, the risks to inflation were still high due to sharp rises in the prices of oil and food. The euro broke the psychological US$1.45 level in November 2007 with Euro zone officials making it clear that they were increasingly unhappy with the euro's relentless rise.

Early 2008, the euro remained well supported by strong data releases and tough inflation comments by ECB officials. However, financial market concerns and a bag of mixed data in April and May 2008 curbed back the euro and the ECB President warned that financial market tensions could last longer and hurt the euro zone economy more than expected. However, positive interest rate differentials put an end to the euro's slide and, on 22 April 2008 in New York trading, the euro briefly climbed above the US$1.60 level for the first time since its 1999 inception, boosted by comments from ECB governing council members that stirred talks that the ECB's next move might be to hike interest rates. In May, sentiment toward the euro soured again on financial market strains indicating that the Euro zone was not immune to the problems in the United States. Thus, in 2007-08, the ECB left rates unchanged given the uncertainties arising from the financial market turmoil and its potential impact in the Euro zone but nevertheless clearly signalled a rate increase in July 2008 to combat record high inflation well above the central bank's 2 per cent target.

Starting July 2007, the Pound sterling traded at an average of US$2.0335, benefiting from the US dollar's weakness and market expectations of a near-term UK interest rate hike, which was, as expected, delivered by the BOE's MPC on 5 July 2007. The key repo rate was hiked for the fifth time since August 2006 to a 6-year high of 5.75 per cent. In August 2007, however, at the outbreak of the credit crisis, the high-yielding British currency suffered losses from unwinding of carry trade positions on heightened risk aversion as a result of the credit crunch. The Pound sterling thereafter managed to move up against the US dollar supported by robust manufacturing and sales data in September 2007. Rates were left unchanged during that month on worries over the ongoing credit crunch but this brought the Pound sterling down against the US dollar. Remarks by BoE Governor Mervyn King in front of the parliament's Treasury Committee, suggesting that UK interest rates might not be raised further, coupled with news that thousands of depositors were pulling their money from UK mortgage lender Northern Rock added further pressure on the currency. Subsequently, however, the Pound sterling benefited from expectations that the BOE would not cut interest rates in the near term and from the weakening US dollar. Nonetheless, there were growing indications that the BoE might soon need to cut interest rates as financial markets deteriorated and credit conditions tightened. As expected, the BOE truncated interest rates by 25 bps to 5.50 per cent in December 2007, noting that there were still near-term upside risks to inflation, however.

The Pound sterling continued to lose grounds against the US dollar during January 2008, pressured by increased risk aversion and ongoing market views that UK interest rates were set to fall despite consumer inflation running above the Bank of England's 2.0 per cent target. Interest rates were cut by another quarter percentage point to 5.25 per cent in February 2008 in a bid to head off a sharp consumer-led slowdown, and further gradual policy easing ahead was signaled. The Pound, which lost ground after the rate decision, managed to recover after the release of UK January producer price inflation which surged to its highest level in 16 years. This dampened expectations that the central bank would follow up with rate cuts. The British currency, however, suffered a temporary setback with the release of the BOE's February 2008 MPC minutes and, in April 2008, the Pound sterling was down against the US dollar to an average of US$1.9803. The BOE, for the third time in five months, eased borrowing costs by 25 basis points to 5.00 per cent on 10 April 2008 against the backdrop of poor economic data stemming from the deteriorating UK housing market and increasing fallout from the global credit crunch. The Pound sterling remained at around this level in May and June 2008 on faltering growth in the UK and a slew of poor economic data releases.

The Japanese yen, which started 2007-08 at an average of ¥121.60 per US dollar in July 2007, appreciated over the year on the broad based weakness of the US currency and on credit related concerns and rising oil prices. The BOJ left its policy rate unchanged at 0.5 per cent in July, the lowest among major countries. This put pressure on the Japanese yen as investors continued to sell the low-yielding yen for assets in higher-yielding currencies. During August 2007, the yen appreciated against the US dollar mostly on investors' fears that a worsening global credit crunch could force a huge reversal of carry trades. Signs of spreading financial distress from the US subprime mortgage crisis fuelled heavy selling of risky assets such as stocks, corporate bonds and high-yielding currencies against the yen. However, by end-August and in September 2007, a slight recovery in global stock markets signalled a tentative return to risk appetite and a move back into the carry trade. Nonetheless, the Japanese yen moved higher against the US dollar on the back of the broad-based weakness of the US currency in the wake of global financial markets turbulence. The Japanese yen was rather stable in October 2007 but it appreciated further in November 2007 to move below the psychological level of ¥100 per US dollar on more trouble in the US subprime mortgage and credit markets which increased investors' risk aversion. In December 2007, the yen was pressured by the release of the quarterly Tankan survey, which showed worsening corporate sentiment, and minutes from BOJ policy meetings revealing that officials were worried about high oil prices and the impact of slower US growth on the Japanese economy.

The Japanese yen appreciated in January 2008 as relatively weak US economic data led investors to move into safer, low-yielding assets. The upward movement of the yen continued in February and March 2008 as a result of significant sell-off in the equity market and continued US dollar weakness. The BOJ quarterly tankan survey released in April 2008 showed that business sentiment among big Japanese manufacturers sank to a four-year low, thus pulling the yen down. The yen lost further ground in May and June 2008, undermined by a fall in Tokyo stock market that prompted investors to unwind risky carry trades and by a Japanese government survey of large manufacturers showing that sentiment deteriorated in the second quarter. The BOJ left interest rates on hold at 0.5 per cent in 2007-08.

Domestic Developments

On the domestic market, the exchange rate of the rupee strengthened vis-à-vis the currencies of major trading partners during the fiscal year 2007-08 mainly as a result of strong foreign direct investment inflows into the country and the depreciation of the US dollar on international markets. On a 12-month running period between July 2007 and June 2008, the rupee, on a daily average basis, appreciated against the US dollar, Pound sterling and Japanese yen by 10.6 per cent, 7.5 per cent and 4.2 per cent, respectively, while against the euro the rupee depreciated by 0.3 per cent.

The rupee started the fiscal year 2007-08 trading at Rs32.00 against the US dollar. In July 2007, the Bank of Mauritius raised the key Repo Rate by 75 basis points to 9.25 per cent to counteract inflationary pressures in the economy. As the US dollar continued to weaken in the aftermath of the subprime mortgage crisis, the rupee was able to strengthen vis-à-vis the US dollar to reach Rs29.05 in December 2007. It remained rather stable at the beginning of 2008 but thereafter resumed its appreciating trend in spite of the Bank of Mauritius cutting the key Repo Rate by 25 basis points on 6 February 2008 and by a further 50 basis points on 24 March 2008 to 8.50 per cent. Continued foreign exchange inflows, good domestic economic fundamentals and the weak US dollar on international markets sustained the rupee appreciation to a high of Rs26.44 on 24 April 2008. The monetary policy decision to cut rates by another 50 basis points on 2 May 2008 led the rupee to depreciate against the US dollar but this was short-lived as the rupee turned around at the beginning of June to finally close the year at Rs27.71 against the US dollar.

Against the Pound sterling, the rupee closely tracked the Rs/US dollar movements given that the credit crisis and housing markets problems affected both the British and US economies. From an average of Rs64.85 against the Pound sterling in July 2007, the rupee gained ground briefly at the beginning of August 2007 before stabilising in the range of Rs61.99-Rs64.57 up to November 2007. As UK interest rates were cut in December 2007 as a result of deterioration in financial markets, tightening of credit conditions, and strong risk aversion, the rupee strongly appreciated against the British pound to reach Rs52.01 on 16 April 2008. Thereafter, the rupee lost some ground to close at Rs55.33 at the end of the fiscal year.

The rupee started the year trading at a daily average of Rs43.33 against the euro but with the downward strain on the euro due to strong concerns over European banks exposure to the US subprime mortgage sector crisis, the ECB's concern about growing inflation and ECB decision to keep rates on hold, the rupee gained ground and reached Rs42.09 against the euro in August 2007. As the euro recovered on the international front, the rupee lost ground and reached Rs45.68 on 23 November 2007. The rupee thereafter rebounded quite significantly as weak sentiment in the Euro zone intensified amid rising inflation. It strengthened to trade at a fiscal year low of Rs41.22 at the start of May 2008. Subsequently, however, the rupee came down versus the euro but managed to pick up in June to close at Rs43.84 at the end of 2007-08.

Against the Japanese yen, the rupee traded at an average rate of Rs26.14 per 100 yen at the start of 2007-08. The rupee was quite volatile against the yen throughout the fiscal year 2007-08, moving around a mean of Rs26.86 per 100 yen.

In the first half of the fiscal year, the rupee traded as low as Rs28.51 on 23 November 2007 reflecting the relative strength of the yen against the dollar. However, it turned around and was able to recoup its losses vis-à-vis the yen in December, trading at a high of Rs25.72 on 27 December 2007. In January 2008, the rupee shed its gains before embarking on an appreciating trend up to the beginning of May 2008. As the Japanese yen weakened against the US dollar on the international front, the rupee was able to strengthen in May before weakening again to reach Rs26.24 per 100 yen on 30 June 2008.

On a nominal effective basis, the rupee appreciated against the currencies of its important trading partners over fiscal year 2007-08. MERI1, which uses the currency distribution of trade as weights, showed a rupee appreciation of 10.9 per cent while MERI2, which uses the currency distribution of trade combined with the currency distribution of tourism receipts as weights, showed an appreciation of 10.6 per cent during the year.

Table 3.16 shows the exchange rate of the Mauritian rupee vis-à-vis major trading partner currencies while Chart 3.8 shows the trends in the daily exchange rates of the rupee against the US dollar, euro, Japanese yen, Pound sterling and South African rand.

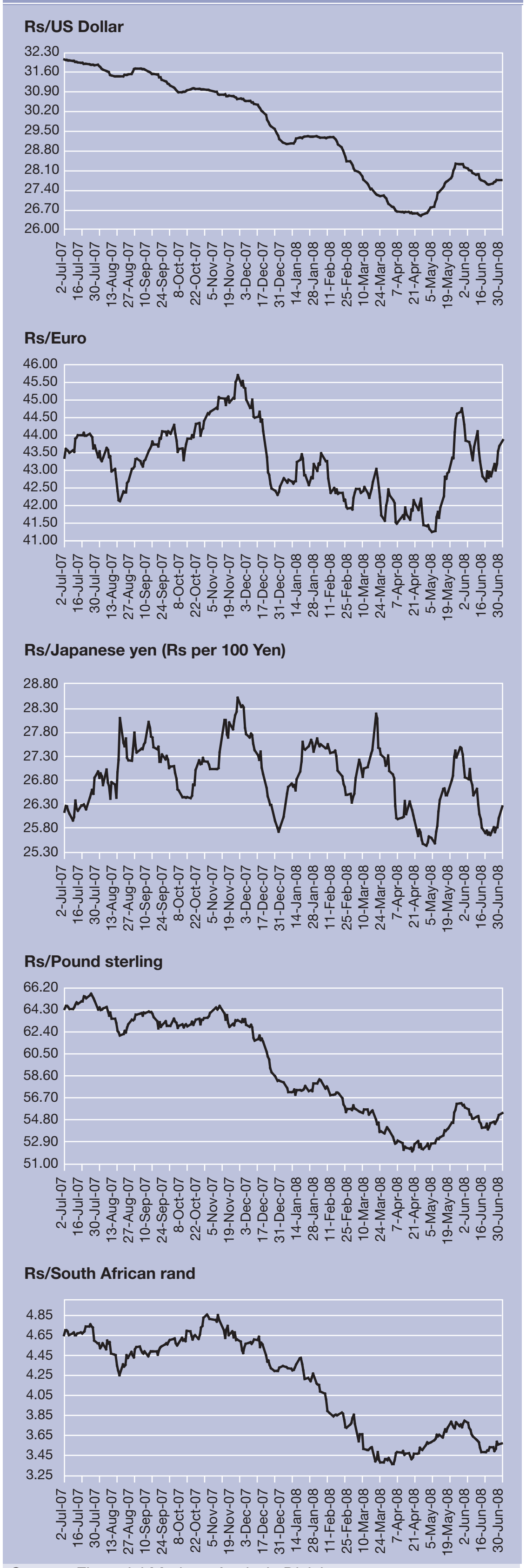
Table 3.16: Exchange Rate of the Rupee vis-à-vis Major Trading Partner Currencies

Indicative Selling Rates	Average for 12 Months Ended June 2007	Average for 12 Months Ended June 2008	Appreciation/ (Depreciation) of Rupee Between (1) and (2)
	(Rupees)		(Per cent)
	(1)	(2)	(3)
Australian dollar	25.9429	26.4799	(2.0)
Hong Kong dollar	4.2438	3.8137	11.3
Indian rupee (100)	75.2379	73.9008	1.8
Japanese yen (100)	27.9835	26.8586	4.2
Kenya shilling (100)	47.5475	45.7783	3.9
New Zealand dollar	22.5649	22.6974	(0.6)
Singapore dollar	21.3458	20.7228	3.0
South African rand	4.6727	4.1476	12.7
Swiss franc	26.6377	26.5786	0.2
US dollar	32.6437	29.5248	10.6
Pound sterling	63.6095	59.1681	7.5
Euro	43.0911	43.2324	(0.3)

Note: The daily average exchange rate of the rupee is based on the average selling rates for T.T. and D.D. of banks.

Source:Financial Markets Analysis Division

Chart 3.8: Movements of the Daily Exchange Rate of the Rupee vis-à-vis Major Currencies :2007-08



Source: Financial Markets Analysis Division

CAPITAL MARKET DEVELOPMENTS

The Stock Exchange of Mauritius Ltd

During the fiscal year 2007-08, the stock market performed strongly, with the SEMDEX, SEM-7, SEMTRI (Rs) and SEMTRI (USD) reaching all time highs of 2,101.34, 543.42, 5,526.96 and 3,012.31 in the third week of February 2008 led mainly by banks and insurance as well as leisure and hotels. The market's solid performance was attributable to good economic fundamentals, bullish market sentiment, the continued interest of foreign investors for local stocks, and the publication of encouraging interim results by some listed companies.

The number of domestic listed companies on the Official Market of the stock exchange totalled 41 at the end of June 2008 compared to 40 as at end-June 2007. Market capitalisation as at 30 June 2008 stood at Rs170.6 billion compared to Rs133.0 billion as at end-June 2007. There were 248 trading sessions on the Official Market in 2007-08, like in 2006-07. The aggregate value of transactions amounted to Rs11.8 billion for a volume of 244.7 million shares and debentures transacted compared to an aggregate value of Rs10.8 billion for a volume of 280.8 million shares and debentures transacted in the preceding year.

The SEMDEX increased from 1,433.07 at the end of June 2007 to 1,842.14 at the end of June 2008 while the SEM-7 increased from 339.36 to 458.06. The SEMTRI, which includes price earning ratios and dividend earnings and measures daily price changes on listed stocks, rose by 32.5 per cent in rupee terms, from 3,691.60 as at end-June 2007 to 4,889.79 as at end-June 2008. In US dollar terms, it increased by 53.3 per cent, from 1,808.30 to 2,771.40.

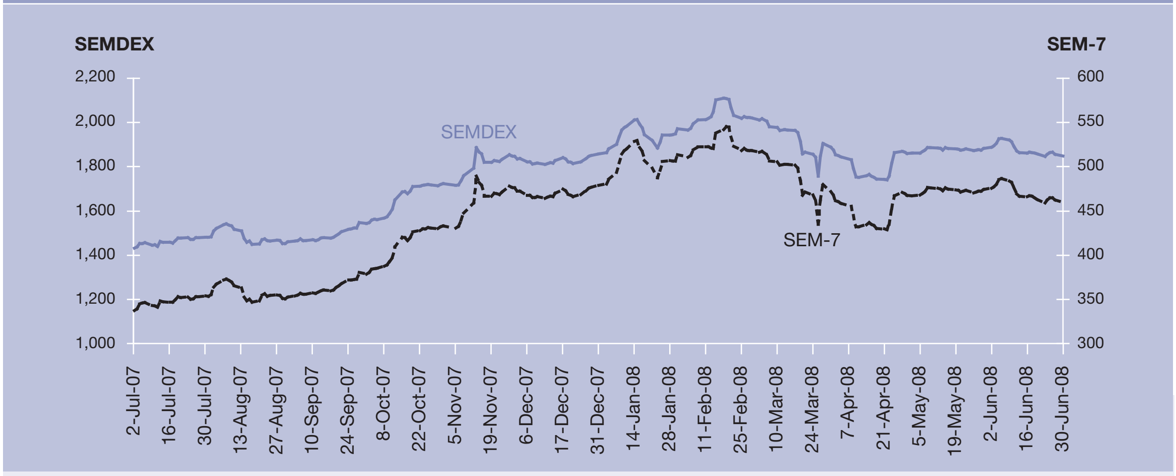
Market capitalization on the Development and Enterprise Market (DEM), which was launched on 4 August 2006 to replace the Over the Counter (OTC) market and which was expected to enable Small and Medium sized enterprises (SME's) and newly set enterprises to avail themselves of the advantages and facilities provided by an organized and regulated market, reached Rs49.8 billion as at end-June 2008 while the number of domestic listed companies stood at 51. During 2007-08, a total volume of shares of 70.5 million was traded for a total value of Rs1.3 billion. The DEMEX increased marginally from 145.4 as at end-June 2007 to 146.06 as at end-June 2008.

During 2007-08, foreign investors continued to invest significantly in the local stock market. On the Official market, foreigners made total purchases of Rs4,340.9 million and sales of Rs2,420.7 million, that is, a net investment of Rs1,920.2 million compared to Rs932.0 million in 2006-07. On the DEM, net foreign investment stood at Rs104.2 million as at end-June 2008.

During 2007-08, Treasury Bills amounting to Rs10 million were listed on the Stock Exchange while sales of Treasury Bills stood at Rs8.1 million.

Chart 3.9 shows the movements in the SEMDEX and SEM-7 during 2007-08.

Chart 3.9: Movements in the SEMDEX and SEM-7



Source: Stock Exchange of Mauritius Ltd

4 Financial Stability

One of the objectives of the Bank is to maintain the stability and soundness of the financial system and this mandate is a statutory obligation imposed by the Bank of Mauritius Act 2004. The Bank is thus required to publish, at least twice a year, a statement on the stability and soundness of the financial system. In October 2007, the Bank set up a Financial Stability Unit (FSU) under the umbrella of the First Deputy Governor's office. The mandate of the FSU, among others, is to publish a Financial Stability Report on a half yearly basis namely in June and December. The inaugural issue of the Financial Stability Report was released on 10 July 2008.

While the devastating impact of the sub-prime crisis continued to amplify in main markets, the domestic economic environment did not exhibit any signs of major instability as a result of the international financial turbulence. The relatively small exposure of the economy to the United States (US) and the indirect exposure of the country through its trade links with European economies in terms of exports mitigated to a large extent, the possible transmittal of the US financial turbulence to our shores.

On the domestic front, the financial sector was dominated by the banking sector which accounted for 73 per cent of the financial sector in 2007 against 71 per cent in 2006 while the insurance sector represented the second largest component. The banking environment was not vibrant in terms of entrants, exits and mergers in the year ended June 2008. The overall number of banks in operation at end June 2008 remained at 20.

The banking sector operated with sustained profitability over the past years and the two major banks, operating mainly in Segment A activites maintained their market shares to above 60 per cent in aggregate, in terms of total assets, loans and deposits. The quality of assets improved over the year and inter-sectoral exposures were redistributed in banks' loan portfolios as the Construction sector became a more attractive investment sector via the Integrated Resort Scheme projects.

Most Financial Soundness Indicators were within sound levels and the banks remained resilient mainly on account of their strong capital levels, robust risk management systems, compliance with the prudential qualitative and quantitative requirements of the Bank as well as implementation of the recommendations made after on site examinations.

5 Accounting and Budgeting

In the wake of the restructure process that the Bank started in June 2007, the former Accounting, Budgeting and Payment System Department was reorganised with a view to reinforcing the four-eye principle. The electronic system for the settlement of payments was hived off and transferred to a newly created division, the Payments System and MCIB Division. Conversely, the Bank's payroll system, all payments in respect of goods and services provided to the Bank, the accounting in respect of all staff loans including payments thereof, and maintenance of the fixed asset register have been vested with the Division.

As a result, the former Department has been restyled as Accounting and Budgeting Division and it continues to be responsible for the maintenance and safekeeping of accounting records and for the preparation of financial statements of the Bank. It also provides back office services to the Bank's (a) Financial Markets Operations Division, (b) Corporate Services Division, and (c) Banking and Currency Division.

In its capacity as provider of back office services, the Division exercises separate levels of control. The Division also prepares and monitors the budget of the Bank and maintains records pertaining to transactions carried out by Primary Dealers.

Accounting

The Division is responsible for maintaining accounting records pertaining to, inter alia, foreign exchange transactions, open market operations for Government of Mauritius Securities and Bank of Mauritius Bills.

The Division carries out, on behalf of Government, all foreign exchange transactions in respect of debt servicing, payments for consultancy services and contributions to international organisations. It also credits foreign currency receipts of Government in their accounts maintained at the Bank.

The Division processes, on behalf of Government, the transactions with international financial organisations such as the International Monetary Fund, International Bank for Reconstruction and Development and International Development Association. The transactions with these organisations involve currency valuation adjustments, use of rupees under the operational budget and maintenance of value.

Auctions of Government of Mauritius Treasury Bills/Bank of Mauritius Bills on the primary market are conducted weekly. Transactions pertaining to successful bids are recorded in book entry form at the Bank. The holders of these Bills are provided with monthly statements.

Transactions pertaining to Treasury Notes, and long term Bonds and which are issued in accordance with the Issuance Plan of Government are recorded by the Division. Whereas Treasury Notes are recorded in book entry form, certificates of holdings are issued for Five Year Bonds and Mauritius Development Loan Stocks. With effect from 1 July 2008, such certificates are no longer issued following the enactment of the Public Debt Management Act 2008.

The Bank is required, under Section 31 (1) of the Bank of Mauritius Act 2004 to carry out its accounting in conformity with accounting principles applicable to central banks and best international practices. The Bank prepares its accounts in accordance with International Financial Reporting Standards (IFRS) in so far as they are practically applicable to Central Banks. In line with international standards which require enhanced transparency, the Bank publishes financial statements in a more elaborate format. The Bank's balance sheet and income and cash flow statements for the financial year ended 30 June 2008 together with comprehensive notes are presented in this report.

The Division also prepares on a monthly basis a statement of assets and liabilities which is published in the Government Gazette and the Bank's monthly bulletin. The statement of assets and liabilities can also be viewed on the Bank's website. In accordance with section 32(6) of the Bank of Mauritius Act 2004, a copy of the assets and liabilities is submitted to the Minister.

Profitability of the Bank

In accordance with Section 11(1) of the Bank of Mauritius Act 2004, the Board of Directors of the Bank of Mauritius ('the Bank') determines the net profits of the Bank for each financial year, after meeting all current expenditure for that year and after making such provisions as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies. The Bank's accounts for the year ended 30 June 2008 were approved by the Board on 31 October 2008.

The Bank realised a profit of Rs1,559 million for the year ended June 2008 compared to Rs1,763.3 million in June 2007. The lower amount of profit realised in the current financial year arose mainly from higher costs for conducting Open Market Operations.

OPEN MARKET OPERATIONS

Bank of Mauritius Bills

Bank of Mauritius Bills are issued by the Bank on the same terms and conditions as Government of Mauritius Treasury Bills. The cost of servicing of the Bank of Mauritius Bills is accounted for as an expense in the accounts of the Bank.

Since the beginning of the year 2008, the Bank has been intervening heavily on the domestic foreign exchange market in order to purchase foreign currencies emanating mainly from the Integrated Resorts Scheme (IRS) projects. Concurrently, the Bank has been injecting rupee funds in the domestic banking system. In order to sterilise these injections of liquidity with a view to containing the concomitant inflationary pressures in the economy, the Bank has been issuing an increased amount of Bank of Mauritius Bills. This trend is expected to continue, given the increase in the number of IRS projects being approved by Government.

Bank of Mauritius Bills issued and outstanding are revalued at the end of each month and are marked to market in line with the requirements of International Financial Reporting Standards. The nominal amount of Bank of Mauritius Bills outstanding in the books of the Bank stood at Rs6,509.5 million as at 30 June 2008 (2007: Rs6,003.7 million).

Repurchase Transactions

Through a repurchase (repo) transaction, the Bank lends liquid funds to another bank against collateral in the form of securities. The Bank conducts a repo transaction when a bank is cash strapped. A reverse repurchase (reverse repo) transaction is one under which the Bank mops up the temporary excess liquidity of a bank by providing collateral to that bank in the form of securities. The two parties enter into an irrevocable commitment to complete the operation on a certain date and at a price fixed at the outset on the principle of delivery against payment.

In fact, this type of operation assumes the form of a short term loan at a guaranteed rate of interest. In the books of the Bank of Mauritius, repurchase transactions are treated as collateralised financing transactions and are recorded at the amounts of cash advanced or received plus accrued interest.

Securities received under repurchase agreements and securities delivered under reverse repurchase agreements are not recognised in the balance sheet of the Bank unless control of the contractual rights that comprise these securities is relinquished.

Interest earned on repurchase agreements and interest incurred on reverse repurchase agreements are recognised as interest income and interest expense, respectively, over the life of each agreement.

No repurchase transactions were conducted in the Financial Year 2007/2008.

Special Deposits

With effect from 26 November 2007 banks are placing special deposits for a period of 14-21 days with the Bank. A total amount of

Rs11,225,000,000 has been placed by banks which were remunerated at a rate ranging from 7.25% to 8.00%.

Budgeting

The Division is vested with the responsibility of preparing the budget of the Bank as well as budgetary control. The budget is prepared in conjunction with the envisaged policy of the Management of the Bank during the budget year and is geared towards the cost-effectiveness of the various areas of operations of the Bank.

The budgeting process involves all the Divisions of the Bank and inputs from all of them are used to prepare the master budget of the Bank. The input of each Division is discussed and agreed with its Head. The items of expenditure are categorised under three groups namely, "Recurrent Expenditure-Personal Emoluments", "Recurrent Expenditure-Other Charges" and "Capital Expenditure". A zero-base approach is adopted as far as possible.

The master budget is discussed thoroughly with Management and then presented to the Audit Committee of the Bank. The Audit Committee reviews the master budget and then recommends it to the Board of Directors for approval. The budget of the Bank for the year 2008-09 was presented to the Audit Committee on 11 June 2008 and approved by the Board on 13 June 2008.

The financial performance of the Bank is continuously monitored against the budget. Budget reports, which are prepared and submitted to management, act as an early warning system that triggers strategic decisions in a timely manner. Material variances and trends are highlighted with a view to taking corrective action as appropriate. An Annual Budget Report comparing the actual results with the budget is prepared after the end of each financial year and submitted for the attention of the Board of Directors of the Bank.

The budget is also monitored at the Division level. Reports on the budget performance of each Division are prepared and submitted to the management of the Bank regularly. The reports compare actual against budgeted performance and also provide a basis for feed forward control. Heads of Divisions are also provided with actual figures pertaining to their respective divisions. These figures are compared with divisional budgets and appropriate control actions are taken at the level of each division within the overall budgetary control framework of the Bank.

Abandoned Funds

Section 59 of the Banking Act 2004 requires, banks to transfer to the Bank of Mauritius deposits or monies lodged with them for any purpose that have been left untouched and not claimed for 10 years or more and the customer has not responded within 6 months to a letter from the financial institution about the dormant deposit or money. Once these funds are transferred to the Bank of Mauritius they do not carry interest and are only refunded to the financial institution for repayment to owners of the funds or their heirs or assigns on rightful claims being established to the satisfaction of the central bank.

In addition, under section 57 (6) of the Act, where a customer's deposit or money lodged with a financial institution for any purpose, becomes less than the minimum balance requirement in force in a financial institution from time to time and it has been left untouched for a period of one year and the customer has not responded within six months to a letter from the financial institution informing him of any service fees or charges that may be applicable on the deposit or money for having fallen below the minimum balance, the deposit or money shall without formality be handed over forthwith by the financial institution to the customer concerned in person, failing which it shall be transferred to the central bank to be dealt with in the manner referred to under section 59, as mentioned in the previous paragraph.

Accordingly, transfers to the Bank in respect of abandoned funds amounted to Rs196.5 million, GBP7,822.50, USD200,715.96 and EUR68.10 as at 30 June 2008.

6 Payment Systems & Mauritius Credit Information Bureau

Introduction

One of the main objects of the Bank under section 4(2) of the Bank of Mauritius Act 2004 is to ensure the stability and soundness of the financial system of Mauritius. The Bank, in recognition of the critical importance of payment systems for continuity of fund transfers in the economy continues to improve the payment systems infrastructure in line with rapid development in the global payment system. The introduction of a Cheque Truncation System for an image based cheque clearing, replacement of the Mauritius Automated Clearing and Settlement System (MACSS) application and participation in the Regional Payment and Settlement System (REPSS) of the COMESA Clearing House (CCH) are the projects which the Bank is currently working on.

Cheque Truncation

With a view to further modernising the payment system in Mauritius, the Bank of Mauritius has embarked on a project to modernise the clearing and settlement of cheques in the country through a system called truncation. This process enables clearing to be achieved in a more speedy and secure manner through images of cheques instead of the physical movement of cheques to the Clearing House for exchange.

The modernisation of the cheque clearing and settlement process started in November 2002 when all cheques issued by banks were standardized and use of Magnetic Ink Character Recognition (MICR) cheques was introduced. Since then, banks started exchanging code line data through the Mauritius Automated Clearing and Settlement (MACSS) network. The project on Cheque Truncation was first discussed at the Port Louis Automated Clearing House Committee in September 2005 and a Steering Committee was set up in August 2006 for the project implementation.

It was initially envisaged to develop the application for image based cheque clearing at the Bank. However, given the resources required to develop such a system and the fact that a number of Cheque Truncation System applications existed on the market, it was decided in April 2008 to purchase an off the shelf solution for the System. The Request for Proposal (RFP) was prepared and the Bank organised an international competitive bidding process where suitably qualified vendors were invited to bid for the project in June 2008.

Migration Towards SWIFT RMA

SWIFT is the largest supplier of services for transfer of financial information on the world market. A major part of SWIFT's activities are related to exchange of data between banks. The company's services include a global communications network and standardised messaging formats for exchange of payment data. A large and increasing number of systems in financial infrastructure, including a number of systems that operate across national borders, use communications services supplied by SWIFT. The introduction of a new relationship management application (RMA) will improve the user's control over SWIFTNet counterparts and their traffic. Such mechanism exists in a more limited form today on FIN (via BKE -Bilateral Key Exchange), while the RMA application is targeted at all SWIFTNet services with a requirement for individual users to control their counterparts.

The Bank is on target on migration to RMA. Live testing were completed on 17 June 2008 and these tests will be repeated every month until live date in October 2008.

Regional Payment And Settlement System (REPSS)

Cross-border trade is growing rapidly as more companies source goods and services globally. International trade has doubled over the past decade. Most cross-border trade payments are presently handled through correspondent banking relationships, whereby a series of banks and domestic payment systems are typically linked together to move funds. The growing volume of transactions and migration to open account terms (supplier credit extended to buyer at time of sale), are exerting pressure on banks as well as payment systems to improve the cross-border payment process.

With the current system, cross-border payments are slow, inefficient and costly for banks and businesses. Increase in global trade and improvements in physical supply chain efficiencies are creating demand for process enhancements. Improvement in the efficiency and effectiveness of cross-border payments is feasible, but all stakeholders are being required to increase investments to change the processes and systems of corporates, banks and payment systems.

In this context, the COMESA Clearing House has been mandated to implement a system to facilitate cross-border payment and settlement between Central Banks in the COMESA region. This system, named "Regional Payment and Settlement System - REPSS" will provide a single gateway for Central Banks within the Region to effect payment and settlement of trades. It will be a complete real-time online system with an open, published interface based on S.W.I.F.T standards.

The main aim of REPSS is to stimulate and increase intra-regional trade by enabling importers to pay for goods and services in their local currencies, whilst exporters will be able to invoice for their products in their local currency. Local banks will access the payment system through their central banks. Any participating bank will, therefore, be able to make payments to, and receive payments from, any other participating bank. The linkages through central banks will avoid the complex payment chains that may sometimes occur in correspondent bank arrangements. The system will use the infrastructure of each member country's central bank and commercial banking system to make the system operational. Each country will, however, need to put in place adequate enabling legislation. In addition, it is intended to establish a Trust Fund to assure daily settlements in the event of an inability to settle by one or more participating banks.

The cornerstone of the REPSS operational model is a settlement agent which will hold accounts of participants and carry out end of day procedures. At the Twelfth Meeting of the COMESA Committee of Governors of Central Banks held in Tripoli on 8 and 9 November 2007, it was decided that a REPSS participating Central Bank acts as the Settlement Agent for the COMESA Clearing House (CCH) and opens a CCH USD and a CCH EURO account at its Central Bank. In this context, the Bank of Mauritius has been designated to act as Settlement Agent for the CCH and relevant EURO and USD accounts are being opened for participating member central banks.

In order to provide an efficient and reliable service to participants, the Bank has acquired a software and is setting up an automated system to carry out the functions of settlement agent.

Mauritius Automated Clearing And Settlement System (MACSS)

The MACSS, a real time gross settlement system is the centrepiece of all fund transfers in the country. While providing a means for real time interbank payments, the MACSS is also used to settle cheque clearing positions of the Port Louis Automated Clearing House (PLACH), the final settlements of the Contribution Network Payment (CNP) to the accounts of the Mauritius Revenue Authority and settlements for the Central Depository System (CDS).

During the year ended 30 June 2008, 149,339 payments were routed through the MACSS for a net value of Rs882,850 million. These payments included Rs5,282 million for CDS settlements. During the same period, interbank cheques for a total amount of Rs243,780 million were cleared at the PLACH.

A fast, secure, efficient and reliable payment system is a vital support for sustained economic growth. Due to the fact that there has been a gradual alteration of the tasks that the current settlement system has been used for, and that the system is approaching the end of its technical life, the Bank will implement a new interbank settlement system during the last quarter of 2008.

The Bank will use an extension of the software acquired for the REPSS settlement functions to carry out local RTGS payments. The new system will provide all functions of the current system but the most important change will be that it will have multi-currency support and will provide for payment instructions to be sent through private network thus saving costs on SWIFT messages.

MAURITIUS CREDIT INFORMATION BUREAU

Introduction

For the purpose of meeting its objective of ensuring the stability and soundness of the financial system of Mauritius, the Bank has to, inter alia, ascertain and promote the soundness of financial institutions falling under its purview as well as to adopt policies to safeguard the rights and interests of depositors.

Intermediation is the main source of income of banks and non-bank deposit-taking institutions. Credit quality is therefore critical to the safety and soundness of these institutions. The financial health of the banking system impacts directly on the stability of the financial system as banks lie at the heart of the payment system. In the discharge of its responsibility as regulator and supervisor of the banking sector, the Bank had already put in place several safeguards to ensure the safety and soundness of banks. However, asymmetry of information between lenders and borrowers remained a major barrier for an efficient, timely and informed appraisal of borrowers' creditworthiness. Lenders were highly dependent on informal borrower information which very often led to flawed credit assessment. As additional safeguard to quality of credit and in recognition of the evolving needs of a maturing financial market, the Bank set up the Mauritius Credit Information Bureau (MCIB).

Role of the MCIB

The MCIB was set up under the provisions of the Bank of Mauritius Act 2004 and came into operation on 1 December 2005. It operates through a fully computerized on-line system owned by and located within the premises of the Bank and its main function is to collect credit information on borrowers and guarantors from participant institutions, collate, store and make this information available to these institutions.

Table 6.1: Number of credit reports drawn on a monthly basis

Financial Year ended	30.06.2006	30.06.2007	30.06.2008
July		11,925	15,945
August		11,678	18,432
September		12,101	17,009
October		17,098	21,170
November		14,565	17,751
December	10,526	11,655	18,073
January	10,894	10,861	17,408
February	12,758	10,805	21,351
March	14,556	12,193	20,992
April	11,894	13,678	23,314
May	14,590	17,122	22,638
June	13,039	17,514	22,674
Total	**88,257**	**161,195**	**236,757**

The MCIB serves as a platform for formal information sharing between its participants and plays a pivotal role in credit risk management by bridging the information gap between lenders and borrowers. More reliable and timely information enable lenders to identify good borrowers at the very outset. To ensure that participants take necessary steps to reduce the incidence of adverse selection, the MCIB Terms and Conditions require participants to make necessary enquiry from the MCIB prior to approving, increasing or renewing any credit facility. Table 5.1 gives an overview of the usage of the MCIB in terms of consultation by participants for the period December 2005 to June 2008.

Legal And Regulatory Framework And Borrower Protection

The operations of the MCIB are governed by the Bank of Mauritius Act 2004, the Banking Act 2004 and the MCIB Terms and Conditions.

This framework eases the sharing of information while ensuring confidentiality of information and protecting the legal rights of individuals and firms. Section 52(2) of the Bank of Mauritius Act 2004 guarantees the purpose for which the MCIB collects information and the confidentiality of the information collected while the MCIB Terms and Conditions sets out the conditions under which this information may be accessed by participants under very strict security and system access rules. The MCIB presently operates on a reciprocity basis. Only those institutions which provide credit information to the MCIB have access to the MCIB's Database through a secured network.

As a further measure to ensure only authorized access and to prevent the risk of misuse of information, the MCIB closely monitors all access to the system.

The legal framework guarantees borrowers' rights by allowing them to obtain, free of cost, their credit reports. The Bank has also in place a dispute resolution mechanism whereby borrowers may, in case of disagreement regarding information registered in their names, refer the matter to the institutions which supplied the information for rectification or to the MCIB. The Bank is empowered to issue directives requiring participants to remedy situations, impose penalties and even revoke the license of those institutions carrying out business which is contrary to interests of the public.

In recognition of the need to educate borrowers on the role of the MCIB, the use of information collected by the MCIB, how to access their credit profile and their legal rights, the Bank included these issues as part of a Financial Literacy Programme which it launched in October 2007.

Scope of the MCIB

The effectiveness of a credit bureau is largely determined by its scope in terms of the type of information it collects, the timeliness of information and the extent of the bureau's coverage.

The MCIB collects both positive and negative data on a daily basis on corporate as well as personal borrowers. Availability of both positive and negative data enables lenders to assess credit risk more accurately. Lenders can predict borrowers' behavior towards their obligations to lenders. Positive information also serves as reputation collateral for good payers. The MCIB envisages providing a two-year online credit history as one of the key factors in credit evaluation is the historical conduct of accounts. Credit reports, based solely on information submitted by participants, provide only factual information on borrowers' or guarantors' liabilities and do not express any opinion. The credit granting decision lies with the lending institutions.

Initial reporting cut-off limits of Rs100,000 and Rs500,000, respectively, applicable to personal borrowers and corporate borrowers precluded information vital for an efficient credit evaluation and encouraged borrowers to borrow from several lenders for amounts lower than the cut-off limits. To address this situation, the reporting thresholds were lowered to Rs25,000 for all borrowers as from end-October 2007 and were abolished as from end-February 2008. Participants are now required to report on all facilities they extend.

Under the Bank of Mauritius Act 2004 enacted in October 2004, participation was restricted to only financial institutions licensed by the Bank. At the initial stage, only banks connected to the MACSS were allowed as participants. Presently thirteen banks operating mainly on the domestic market are participants in the MCIB and its database contains 814,372 credit records registered in the names of 292,515 borrowers and guarantors. However, with a view to enhancing credit assessment processes of lenders, the MCIB pursued its expansion to leasing companies and the Mauritius Housing Company Limited which will be shortly connected. To further bridge the information gap regarding borrowers' indebtedness, the Bank of Mauritius Act 2004 was amended by the Finance Act 2008 to allow the extension of the MCIB's coverage to institutions other than those falling under the Bank's purview which will include, inter alia, utility companies.

With a view to further modernizing the Financial System based on international trends and developing new value added products and services, the Bank of Mauritius Act 2004 was amended by the Finance Act 2008 to authorize the Bank to impart information from the MCIB to such bodies and on such terms and conditions it deems fit, for credit rating purposes.

Positive Fallouts Of The MCIB

Although, it is recognized that various factors may have contributed to an improvement in the asset quality of banks, the role played by the MCIB in the reduction in non-performing accounts, by providing the banks with more reliable and timely information for more efficient credit assessment, cannot be ignored.

The MCIB has observed an increasing number of requests for credit reports which may be interpreted as a growing awareness among borrowers regarding their contractual obligations towards creditors.

7 Banking and Currency

BANKING AND CURRENCY DIVISION

The Banking and Currency Division is made up of the Banking Office, the Currency Office and the Rodrigues Office. It is entrusted with the responsibilities relating to the issue and management of the domestic currency and the maintenance of accounts.

THE BANKING OFFICE

The Banking Office is responsible for providing banking services and manages accounts on behalf of the Government, commercial banks, international financial institutions and staff members. It is also responsible for the sale of industrial gold to manufacturers of jewellery as well as the sale of Dodo Gold coins and commemorative coins to the public.

Sale of Gold

The Bank of Mauritius imports and sells gold of high quality, that is, 24 carats 999.9 assay in bar forms of 1,000 grams, 500 grams and 100 grams and in grain forms to industrialists and licensed jewellers.

The selling prices of industrial gold, based on prevailing international gold market prices are posted daily in the Banking Hall and on the website of the Bank.

Sale of Dodo Gold Coins

Dodo Gold coins of 22 carats are issued by the Bank of Mauritius in four denominations, namely, one ounce with a face value of Rs1,000, half an ounce with a face value of Rs500, quarter of an ounce with a face value of Rs250 and one-tenth of an ounce with a face value of Rs100. The coins are legal tender in Mauritius for the value stated thereon.

The Dodo Gold coins are on sale at the Bank of Mauritius and banks licensed by the Bank of Mauritius. They are also marketed overseas by the Royal Mint of the United Kingdom. The daily selling prices of the coins, based on their gold content and on the international gold market prices, are posted in the Banking Hall and on the website of the Bank.

Sale of Commemorative Coins

The under mentioned commemorative coins are also on sale at Bank of Mauritius to members of the public.

1. *Tenth Anniversary of the Independence of Mauritius*

   A silver commemorative coin of Rs25 denomination was issued to mark the 10th anniversary of the independence of Mauritius. The sale price of the coin is Rs250.

2. *1997 Golden Wedding Collector Coin Programme*

   A silver commemorative coin of Rs20 denomination was issued in May 1998 in proof condition to mark the 50th wedding anniversary of Queen Elizabeth II and Prince Philip. The sale price of the coin in presentation case is the rupee equivalent of GBP20.

3. *150th Anniversary of the Mauritius Chamber of Commerce & Industry Silver and Gold Coins*

   A gold commemorative coin of Rs1,000 denomination and a silver commemorative coin of Rs10 denomination both in proof condition were issued in January 2000 to mark the 150th anniversary of the Mauritius Chamber of Commerce & Industry. The sale price of the gold coin is based on the daily price of gold on the international market whereas the price of the silver coin is Rs650. Both coins are available in presentation cases.

4. *Centenary of the Arrival of Mahatma Gandhi in Mauritius*

   A silver commemorative coin of Rs100 denomination in proof condition was issued in November 2001 to mark the centenary of the arrival of Mahatma Gandhi in Mauritius. The sale price of the coin in presentation case is Rs725.

5. *40th Anniversary of Bank of Mauritius*

A silver proof commemorative coin of Rs200 denomination was issued in December 2007 to mark the 40th Anniversary of the Bank of Mauritius. The sale price of the coin in presentation case is Rs1,000.

THE CURRENCY OFFICE

The Currency Office discharges the Bank's statutory obligation to ensure that there is an adequate supply of banknotes and coins to meet the demand of the public in Mauritius. Its key areas of work include:

- Ensuring the availability and supply of good quality coins and notes to commercial banks.
- Accepting the deposits of notes and coins from commercial banks.
- Attending to the destruction of soiled banknotes

During the financial year 2007/2008, banknotes & coins deposited at and issued, by the Bank amounted to Rs16,451 million and Rs17,990 million respectively. From the deposits, banknotes amounting to Rs7,951 million were examined, out of which an amount of Rs2,441 million representing 30.7% by value was found to be unfit for circulation and was withdrawn for destruction. The Bank examined about 16 million banknotes from which 25% by volume were found to be unfit for circulation and was withdrawn for destruction.

In December 2007, banknotes of Rs100, Rs200, Rs500 and Rs1,000 denominations of the current family bearing the signatures of the Governor, First Deputy Governor and Second Deputy Governor were put in circulation. A new 20 Rupee bi-metal coin was also issued by the Bank.

THE RODRIGUES OFFICE

The Bank's office in Rodrigues offers central banking services and maintains accounts on behalf of Government, commercial banks, and staff members. The office also conducts over-the-counter sales of Government of Mauritius Treasury Bills to individuals and non-financial corporations.

It has the task of ensuring the availability and supply of coins and banknotes to meet the demands of banks in Rodrigues. Consignment of banknotes and coins are therefore made regularly to and from the office in order to meet the needs of Rodrigues in cash and to maintain the good quality of banknotes and coins in circulation.

8 Corporate Services

Introduction

As part of the reform of the internal organisational structure and processes at the Bank, a new Corporate Services Division was set up in October 2007. Its main function is to deliver high value services to other divisions/ sections of the Bank. It provides a range of support functions that underpin the Bank's activities. It also manages and provides administrative support for events hosted by the Bank.

The Corporate Services Division comprises several units, namely Knowledge Management Centre, Human Resource Unit, Facilities Management Unit, Building and Maintenance Unit, General Services Unit, Information and Communications Technology Unit and Security Services Unit.

Knowledge Management Centre

The creation of a Knowledge Management Centre (KMC) in early February 2008 marked a paradigm shift in how the Bank intends to move forward as an organisation and in the application of new skills and knowledge by staff. By embarking on a knowledge-driven path, the Bank aims at enhancing its capacity to respond more effectively to the demands of its stakeholders and to the rapidly changing and knowledge-driven economy.

The central focus of all Knowledge Management initiatives is to ensure effective leverage on knowledge as a resource.

The main objective of the Knowledge Management Centre is to help the Bank capture, transfer and create critical knowledge for long-term success. Knowledge Management is an umbrella term for making more efficient use of human knowledge that exists within an organisation. The major focus of knowledge management is to identify and gather content for meaningful relationships. The key of the KMC is to change a corporate culture and mindset from that of a defensive hoarding to a knowledge sharing one. The first initiative was to take charge of the explicit knowledge and the intranet was the first piece of technology through which such initiative took place. Along this line, a daily newsletter that covers both local and international news is prepared and posted on the KMC menu on the intranet. Furthermore, articles relevant to central banking issues and the economy in general are downloaded and posted on the intranet.

The medium and long term plan includes the refurbishment of the old building to host the Knowledge Management Centre comprising a Library, Conference rooms and a Financial museum. The library will be promoted and equipped to become a focal point in the promotion of knowledge among staff of the Bank. In addition, there will also be an enhanced knowledge portal or K-hub and eCollaborative platform for information sharing based on lotus notes.

Human Resource Unit

The Human Resource Unit provides a range of services to attract, hire and retain the staff required to meet the Bank's objectives. Policies covering employment conditions, remuneration and staff training and development are formulated by the Unit.

Through a tendering exercise, a contract has been awarded to a company for the development of a fair appraisal performance system and a competitive remuneration package. The report of the company is expected early September 2008.

Appendix I gives the names of members of the Board of Directors.

Appendix II details the structure of the Monetary Policy Committee.

Appendix III gives the names of Senior Management Officials.

Appendix IV gives the meetings attended by Governor, First Deputy Governor and Second Deputy Governor during the year ended June 2008.

Appendix V gives the names of officers who have been following training courses and attending seminars and workshops abroad during the period under review.

Appendix VI gives the names of officers who have attended local courses/seminars during the year under review.

Appendix VII shows the list of staff recruited during the year.

Appendix VIII provides the names of officers who have been appointed during the period under review.

Appendix IX shows the list of officers who have retired/resigned from the services of the Bank during the period under review.

Appendix X gives the names of officers who have completed their studies during the year under review.

Appendix XI shows the Organisation Chart of the Bank.

Facilities Management Unit

The Facilities Management Unit (FM) is responsible for the Bank's properties and a range of facility services. It provides a functional, safe and flexible work environment for the Bank, ensuring effective management, use and maintenance of assets. It is also responsible for procurement and housekeeping services at the Bank.

The FM Unit supports and maintains the efficient operation of the Bank's premises through the Building and Maintenance Unit.

The Facilities Management Unit was heavily involved in the activities marking the 40th anniversary of the Bank, namely the inter-faith ceremony, the interclub youth athletics tournament, the health week, the launching of the new Rs20 coin, the issue of the Commemorative Rs200 coin, the design competition for the new bank notes, the Charity night for Epilepsy and Alzheimer associations and the opening of the ecological Bamboo Garden.

Information and Communications Technology Unit

The Bank depends on a whole set of information to conduct its business. The ICT Unit uses information technologies to provide this information. The unit is responsible for the planning, procurement, development and management of the Bank's computer and communications systems. Its services include developing and implementing an ICT infrastructure to ensure that there is no break in the provision of ICT services. It also develops and implements software programs at the Bank.

The ICT Unit is also responsible for the management of the MACSS, which is the infrastructure used for payment in the banking sector.

Various IT projects started in the year under review and are expected to be completed in the year 2008-09. They include the COMESA Regional Payment and Settlement System (REPSS); the Cheque Truncation System (CTS); the Security Solution; the Messaging and Collaborative Platform; the Thin Client Solution and the Heavy Duty and Secure Printing Solution.

Security Services Unit

The Security Services Unit is responsible for the surveillance of the areas inside and around the Bank. Its main function is to safeguard the Bank's assets, develop and implement security policies and maintain the highest security standards.

Box V Restructuring of the Bank

The Central Bank has embarked in new endeavours, the Mauritius Credit Information Bureau whose membership has now been extended to cover all credit providers, the Cheque Truncation Project, the Monetary Policy Committee which is a new feature of our financial landscape, to mention a few.

The domestic financial environment has also been rapidly evolving. The number of players in the market has increased. Banks have been engaging in more sophisticated products and new areas of business, Islamic banking, bancasssurance amongst others.

Internationally, standard setting agencies have become more stringent regarding compliance with international standards, be it supervisory, accounting or anti-money laundering and combating the financing of terrorism. The regime is constantly under evaluation.

The Bank had to equip itself to meet those challenges. The Bank of Mauritius also had the determination to move for excellence. To achieve maximum proficiency, the workforce of the Bank required to be optimised. The manpower at the Bank needed to be right sized. The option was to have the right man in the right place to ultimately achieve excellence and improve productivity.

In order to meet those challenges with greater efficiency, the Bank decided to pursue with determination the modernization of its internal structure and embarked into a major restructuring programme.

The Governor had during discussions with his counterpart of the Bank Negara Malaysia, Governor Zeti, sought her support for the modernization and restructuring process. The Governor of the Bank Negara Malaysia agreed to depute her Director-Strategic Management Department and his Deputy to assist the Bank of Mauritius in the restructuring exercise. The officers of the Bank Negara Malaysia had extensive consultations with staff at all levels including the Bank of Mauritius Employees Union and guided the Bank on the way forward for its restructure.

The structure of the Bank is now flatter, with the creation of Divisions within the Bank which are responsible for particular focused areas, thus enhancing its structure. The Bank has adopted an open and transparent staffing strategy. Fifty-one staff members have been promoted and thirty-three additional recruited to enhance its knowledge base and ensure necessary competencies to build a workforce that would ultimately add value to the organisation and contribute directly towards the attainment of the Bank's organisational goals.

The Bank has also enlisted the support of the Reserve Bank of India in the area of bank supervision. A Director-Supervision has been put at our disposal by the Reserve Bank of India.

9 Corporate Governance

A retreat for Board Directors was organized in Rodrigues on 24 Nov. and 25 Nov. 2007. The meeting was attended by the following Board Directors: Mr Shyam Seebun, Mr J. Li Wan Po, Mr G. Vydelingum and Mr M. Ramphul together with the Governor, two Deputy Governors and the Secretary. Mr G. Bingham-Secretary General-Central Bank Governance Forum of the Bank For International Settlements was the Guest Speaker.

10 Audit Committee Report

Report of the Audit Committee to the Bank of Mauritius.

The Audit Committee for the year ended 30 June 2008 comprised of the following members:

Mr J. G. A. Lascie	(Chairman)
Mr S.R.Seebun	(Member)
Mr Ramphul	(Retired on 30 January 2008)
Mr K.Bhayat	(Appointed on 30 January 2008)
Mr G. Vydelingum	(Appointed on 30 January 2008)

Activities of the Committee

The Committee met on five occasions during the year under review and undertook the following:

(a) Review of the Audit Reports submitted by the Internal Audit Section of the Bank in accordance with item (ii) of the terms of reference of the Committee. Recommendations were made by the Committee to Management following these reports. The Internal Audit Section then ensured a follow-up of the recommendations.

(b) Review of the Financial Statements for the year ended 30 June 2007 in accordance with item (v) of the terms of reference of the Committee. Recommendations were made to the Board for approval of the accounts to be signed.

(c) Review of the Management Letter for the year ended 30 June 2007 in accordance with item (iv) of the terms of reference of the Committee. Members met with the External Auditors of the Bank on that occasion.

(d) Review of the Budget Reports for the financial year 2006/2007 and for the Half-Year ended 31 Dec. 2007 in accordance with item (v) of the terms of reference of the Committee.

(e) Review of the Draft Estimates of the Bank for the financial year 2008/2009 in accordance with item (v) of the terms of reference of the Committee.

The Committee also requested the Internal Audit Section to conduct a number of Ad-hoc Audits in addition to their regular Work Programmes.

(J.G. A. Lascie)	(S.R.Seebun)
(G. Vydelingum)	(K. Bhayat)

Terms of Reference

The Terms of Reference of the Committee are as follows:

(i) Review of the effectiveness of the internal control systems of the Bank.

(ii) Review of the working of the Internal Audit Function including approval of the internal audit plan at the start of the year and review of the internal audit reports and the evaluation of the findings, recommendations and management's response.

The Committee needs to assess whether the Internal Audit Function is adequately staffed and equipped and needs to review the professional development activities of the internal auditors.

(iii) Coordination between Internal Audit Function and the External Audit Function to avoid duplication of work and ensure cooperation between them.

The Committee is to consider any material accounting or auditing concern identified as a result of the internal and external audits and make appropriate recommendations.

(iv) Evaluation of the independence and effectiveness of the external auditors.

The Committee should discuss with the external auditors before the start of the audit about the engagement letter, scope of the audit function and the audit fee. The Committee may also identify problem areas that the audit can address.

The Committee reviews the management letter submitted at the end of the audit every year and ensures that all matters highlighted are being followed up.

The Committee should meet at least once a year with the external auditors without any executive member of the Board in attendance.

(v) Review of the reliability and accuracy of the financial statements, interim reports, budgets and other public reports prior to their submission and approval of the Board.

(vi) Assurance that the Bank is operating in accordance with legal provisions, code of conduct, by laws and rules and regulations established by the Board.

11 Financial Statements

BANK OF MAURITIUS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

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INTRODUCTION

Section 11(1) of the Bank of Mauritius Act 2004 states that the Board of Directors shall determine the net profits of the Bank of Mauritius('the Bank') for each financial year, after meeting all current expenditure for that year and after making such provisions as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies.

The Bank realised a profit of Rs1,559.4 million for the year ended 30 June 2008 compared to Rs1,763.3 million in 2007 before any transfer to the General Reserve Fund in accordance with section 11(2) of the Bank of Mauritius Act 2004.

The Audit Committee met on 9 October 2008 to review the reliability and accuracy of the financial statements as specified in its terms of reference prior to their submission to the Board for approval.

Assets

The Bank's foreign assets rose mainly due to an increase in Other Balances and Placements as a result of the purchase of foreign currencies from the domestic foreign exchange market during the financial year. The foreign currencies were placed in fixed term deposits.

Local assets have decreased mainly due to a decline in Loans and Advances as a result of repayment of capital in respect of advances made under the Sugar Sector Loan Scheme.

Liabilities

Liabilities have grown up mainly due to increases in the net amount of Bank of Mauritius Bills issued, Demand Deposits and Notes and Coins in Circulation.

Capital and Reserves

The net decrease in Reserves arose mainly from net depreciation of Foreign Assets the whole amount of which has been offset against the Special Reserve Fund in accordance with Section 47(1) of the Bank of Mauritius Act 2004. The decrease in Reserves was, however, partially offset through an allocation of profits to the General Reserve Fund in accordance with section 11(2) of the Bank of Mauritius Act 2004.

Statement of Responsibilities of the Board of Directors of the Bank of Mauritius

Section 31(2) of the Bank of Mauritius Act 2004 states that the accounts of the Bank shall be audited at least once a year by such auditors as may be appointed by the Board.

The Board of Directors of the Bank is responsible to ensure that the financial statements give a true and fair view of the financial position, financial performance and cash flows of the Bank in conformity with accounting principles applicable to Central Banks and best international practices in accordance with Section 31(1) of the Bank of Mauritius Act 2004. The Board is responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Bank's policy is to prepare financial statements in accordance with International Financial Reporting Standards. The general policy of the affairs and business of the Bank are entrusted to a Board of Directors. As at 30 June 2008, the Board consisted of the Governor as Chairperson, two Deputy Governors and six other Directors. The Bank of Mauritius Act 2004 provides for not less than five but not more than seven other Directors. The Governor and Deputy Governors are appointed by the President of the Republic of Mauritius, on the recommendation of the Prime Minister on such terms and conditions as may be specified in the instrument of appointment. The Governor and Deputy Governors shall hold office for a term not exceeding five years and shall be eligible for reappointment.

The Governor is the principal representative of the Bank and is responsible for the execution of the policy of the Board and the general supervision of the Bank of Mauritius. The Deputy Governors shall under the general supervision of the Governor be responsible for the day-to-day administration of the Bank. In the absence of the Governor, the First Deputy Governor shall act as Governor and in the absence of the Governor and, the First Deputy Governor, the Second Deputy Governor shall act as Governor.

The Directors of the Bank hold office for a term not exceeding three years and are appointed by the Minister of Finance. They are eligible for re-appointment at the end of their term of office. The Board meets at the seat of the Bank at least once every month and six members constitute the quorum.

Deloitte.

Kemp Chatteris
3rd Floor Cerné House
La Chaussée
Port-Louis, P.O. Box 322
Mauritius

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF BANK OF MAURITIUS

This report is made solely to the shareholder of the Bank, as a body. Our audit work has been undertaken so that we might state to the shareholder of the Bank those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the shareholder of the Bank as a body, for our audit work, for this report, or for the opinion we have formed.

Report on the Financial Statements

We have audited the financial statements of Bank of Mauritius on pages 124 to 152 which comprise the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibilities for the financial statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles applicable to Central Banks and best international practices in accordance with Section 31(1) of the Bank of Mauritius Act 2004 and in accordance with the Financial Reporting Act 2004. The Bank's policy is to prepare the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements on pages 124 to 152 give a true and fair view of the financial position of the Bank as at 30 June 2008, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the Bank of Mauritius Act 2004 and the Financial Reporting Act 2004.

Report on other matters:

- we have no relationship with, or interests in, the Bank, other than in our capacity as auditors;
- the net profit for the year has been ascertained in accordance with Section 11 of the Bank of Mauritius Act 2004; and
- in our opinion, proper accounting records have been kept by the Bank as far as appears from our examination of these records.

Kemp Chatteris Deloitte

Kemp Chatteris Deloitte
Chartered Accountants
31 October 2008

BANK OF MAURITIUS BALANCE SHEET AS AT 30 JUNE 2008

	Notes	2008 Rs	2007 Rs
ASSETS			
Foreign Assets:			
Cash and Cash Equivalents	6	**23,915,156,764**	27,596,057,717
Other Balances and Placements	7	**32,479,737,355**	24,746,676,433
Interest Receivable		**712,925,544**	421,651,880
Other Investments		**17,215,417**	19,209,941
		57,125,035,080	52,783,595,971
Loans and Advances	8	**890,810,529**	1,426,843,474
Financial Assets	9	**605,471,161**	619,852,226
Computer Software	10	**173,675**	164,769
Property, Plant and Equipment	11	**1,932,842,703**	1,953,457,013
Other Assets	12	**275,790,202**	561,800,057
TOTAL ASSETS		**60,830,123,350**	57,345,713,510
LIABILITIES			
Notes in Circulation	13	**14,568,920,845**	13,131,807,775
Coins in Circulation	13	**518,757,195**	459,313,393
		15,087,678,040	13,591,121,168
Demand Deposits:			
Government		**5,062,218,879**	1,174,031,812
Banks		**11,932,756,231**	9,480,130,610
Other Financial Institutions		**98,724,287**	90,784,112
Others		**421,656,722**	953,101,952
		17,515,356,119	11,698,048,486
Other Financial Liabilities	14	**6,356,036,409**	5,970,871,779
Provisions	15	**100,000,000**	100,000,000
Employee Benefits	16	**101,026,671**	51,080,000
Other Liabilities	17	**2,195,887,900**	1,368,342,925
TOTAL LIABILITIES		**41,355,985,139**	32,779,464,358
CAPITAL AND RESERVES	5		
Stated Capital		**1,000,000,000**	1,000,000,000
Reserves		**18,474,138,211**	23,566,249,152
TOTAL CAPITAL AND RESERVES		**19,474,138,211**	24,566,249,152
TOTAL LIABILITIES, CAPITAL AND RESERVES		**60,830,123,350**	57,345,713,510

Approved and authorised for issue on: 31 October 2008

Y. Googoolye
First Deputy Governor

R. Bheenick
Governor

BANK OF MAURITIUS INCOME STATEMENT AS AT 30 JUNE 2008

	Notes	2008 Rs	2007 Rs
INCOME			
Income from Financial Assets			
Interest and Similar Income on Foreign Assets	18	**2,671,395,892**	2,107,386,403
Interest and Similar Income on Local Assets	18	**65,047,200**	155,404,665
Others	18	**122,519,705**	235,069,911
	18	**2,858,962,797**	2,497,860,979
Loss on Foreign Exchange Transactions		**(7,048,748)**	(63,967,010)
Other Income	19	**24,898,926**	21,290,553
		2,876,812,975	2,455,184,522
LESS:			
EXPENDITURE			
Expenditure on Financial Liabilities:			
- Interest Expense and Similar Charges	20	**26,927,952**	30,857,489
Staff Salaries and Other Benefits	21	**199,767,612**	155,968,889
General Expenditure		**90,402,516**	88,338,067
Fees Payable		**11,716,963**	13,050,966
Coin Issue Expenses	22	**97,587,616**	6,536,908
Note Issue Expenses	22	**53,687,188**	14,342,155
Depreciation of Property, Plant and Equipment		**106,122,713**	20,880,551
Directors' Remuneration	23	**10,578,239**	11,760,600
IMF Charges	31	**22,098,291**	22,013,700
Other Expenditure	24	**17,664,436**	18,096,486
		636,553,526	381,845,811
OPEN MARKET OPERATIONS	26		
Charges on Bank of Mauritius Bills		**645,310,414**	310,002,785
Interest on Special Deposits Facility		**35,577,740**	-
		680,888,154	310,002,785
NET PROFIT FOR THE YEAR BEFORE (LOSS)/GAINS ON NET FOREIGN EXCHANGE AND REVALUATION OF GOLD AND SDR		**1,559,371,295**	1,763,335,926
(Loss)/Gains on Net Foreign Exchange and on Revaluation of Gold and SDR		**(4,766,192,756)**	3,490,693,904
NET (LOSS)/PROFIT FOR THE YEAR		**(3,206,821,461)**	5,254,029,830
Transfer from/ (to) Special Reserve Fund in terms of Section 47(1) of the Bank of Mauritius Act 2004		**4,766,192,756**	(3,490,693,904)
NET PROFIT FOR THE YEAR IN TERMS OF SECTION 11 (1) OF THE BANK OF MAURITIUS ACT		**1,559,371,295**	1,763,335,926
Less: Transfer to General Reserve Fund in terms of Section 11 (2) of the Bank of Mauritius Act 2004		**(233,905,694)**	(303,512,047)
Less: Transfer to Other Reserves (Open Market Operations)		**-**	(559,823,879)
PROFIT AVAILABLE TO THE GOVERNMENT OF MAURITIUS FOR TRANSFER TO CONSOLIDATED FUND IN TERMS OF SECTION 11(3) OF THE BANK OF MAURITIUS ACT 2004		**1,325,465,601**	900,000,000

BANK OF MAURITIUS STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Stated and Paid Up Capital	General Reserve Fund	Special Reserve Fund	Accumulated Profit	Other Reserves	Total
	Rs	Rs	Rs	Rs	Rs	Rs
At 1 July 2006	1,000,000,000	696,487,953	16,833,445,123	-	1,682,286,246	20,212,219,322
Net Profit for the Year	-	-	-	5,254,029,830	-	5,254,029,830
Transfer to General Reserve Fund	-	303,512,047	-	(303,512,047)	-	-
Transfer to Special Reserve Fund	-	-	3,490,693,904	(3,490,693,904)	-	-
Transfer to Other Reserves (Open Market Operations)	-	-	-	(559,823,879)	559,823,879	-
Profit available to the Government of Mauritius for transfer to Consolidated Fund	-	-	-	(900,000,000)	-	(900,000,000)
At 30 June 2007	1,000,000,000	1,000,000,000	20,324,139,027	-	2,242,110,125	24,566,249,152
At 1 July 2007	1,000,000,000	1,000,000,000	20,324,139,027	-	2,242,110,125	24,566,249,152
Net Loss for the Year	-	-	-	(3,206,821,461)	-	(3,206,821,461)
Transfer from Special Reserve Fund	-	-	(4,766,192,756)	4,766,192,756	-	-
Transfer to General Reserve Fund	-	233,905,694	-	(233,905,694)	-	-
Balance available to the Government of Mauritius for transfer to Consolidated Fund	-	-	-	-	(559,823,879)	(559,823,879)
Profit available to the Government of Mauritius for transfer to Consolidated Fund	-	-	-	(1,325,465,601)	-	(1,325,465,601)
At 30 June 2008	**1,000,000,000**	**1,233,905,694**	**15,557,946,271**	**-**	**1,682,286,246**	**19,474,138,211**

BANK OF MAURITIUS CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008 Rs	2007 Rs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Cash Inflow from Operating Activities	25	**5,021,928,600**	8,156,472,809
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase)/Decrease in Other Balances and Placements		**(7,733,060,922)**	4,358,666,350
Decrease in Financial Assets		**14,381,065**	3,236,262,918
Additions to Intangible Assets		**(179,290)**	(139,598)
Acquisition of Property, Plant and Equipment		**(85,339,967)**	(504,187,997)
Proceeds from Sale of Property, Plant and Equipment		**668,054**	2,157,820
Proceeds from Sale of Intangible Asset		**-**	100
Dividend Received		**701,507**	530,754
Net Cash(Used in)/Generated from Investing Activities		**(7,802,829,553)**	7,093,290,347
Cash Flows from Financing Activities			
Profit paid to the Government of Mauritius		**(900,000,000)**	(600,000,000)
Net (Decrease)/Increase in Cash and Cash Equivalents		**(3,680,900,953)**	14,649,763,156
Cash and Cash Equivalents at 1 July	6	**27,596,057,717**	12,946,294,561
Cash and Cash Equivalents at 30 June	6	**23,915,156,764**	27,596,057,717

BANK OF MAURITIUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. LEGAL FRAMEWORK

In terms of section 4(2)(c) of the Bank of Mauritius Act 2004, the Bank of Mauritius ('the Bank') is established to act as the Central Bank for Mauritius. Its main place of business is at Sir William Newton Street, Port Louis, and it operates an office in Rodrigues. The Bank is an independent institution with its own legal personality and submits a copy of its audited accounts to the Minister who lays a copy thereof before the National Assembly.

The primary object of the Bank shall be to maintain price stability and to promote orderly and balanced economic development.

To attain these objectives, the Bank's principal functions are to:

- conduct monetary policy and manage the exchange rate of the rupee, taking into account the orderly and balanced economic development of Mauritius;
- regulate and supervise financial institutions carrying on activities in, or from within, Mauritius;
- manage, in collaboration with other relevant supervisory and regulatory bodies, the clearing, payment and settlement systems of Mauritius;
- collect, compile, disseminate, on a timely basis, monetary and related financial statistics; and
- manage the foreign exchange reserves of Mauritius.

Under Section 10 of the Bank of Mauritius Act 2004, the stated and paid up capital of the Bank shall be not less than one billion rupees and shall be subscribed and held solely by the Government. Further, the amount paid as capital of the Bank may be increased from time to time by transfer from the General Reserve Fund or the Special Reserve Fund of such amounts as the Board may, with the approval of the Minister, resolve.

Under Section 11(1) of the Bank of Mauritius Act 2004, the Board shall determine the net profits of the Bank for each financial year, after meeting all current expenditure for that year and after making such provision as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies.

Under Section 11(2) of the Act, the Bank shall establish a General Reserve Fund to which shall be allocated, at the end of every financial year of the Bank, 15 per cent of the net profits of the Bank.

Under Section 11(3) of the Act, the balance of the net profits for the financial year remaining after the allocation made under subsection (2) shall, subject to subsection (4), be paid into the Consolidated Fund as soon as practicable after the end of every financial year. Section 11(4) of the Act provides that subject to subsection (5), the balance in the General Reserve Fund shall be at least equivalent to the amount paid as capital of the Bank. Under section 11(5) of the Act, where, at any time, the balance in the General Reserve Fund is less than the amount paid as capital of the Bank, the Bank shall endeavour to bring the balance to the required level.

Further, under Section 11(6) of the Bank of Mauritius Act 2004, no allocation under subsection (3) shall be made where, in the opinion of the Board:

(a) the assets of the Bank are, or after such allocation would be, less than the sum of its liabilities and paid up capital; or

(b) the Bank would not be in a financial position to conduct its activities properly.

Under Section 31(1) of the Act, the financial statements shall be prepared in conformity with accounting principles applicable to Central Banks and best international practices. The Bank has adopted International Financial Reporting Standards for the preparation of its financial statements.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In terms of Section 31(1) of the Bank of Mauritius Act 2004, the accounting of the Bank shall, at all times be carried out in conformity with accounting principles applicable to Central Banks and best international practice. In line with best practices, the Bank has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS").The Bank has adopted the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 July 2007. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

The Bank has adopted IFRS 7: Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 July 2007 and the consequential amendments to IAS 1: Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding financial instruments.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 1	Presentation of Financial Statements - Comprehensive revision including requiring a statement of comprehensive income and amendments relating to disclosure of puttable instruments and obligations arising on liquidation
IAS 1	Presentation of Financial Statements - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 16	Property, Plant and Equipment - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 19	Employee Benefits - Amendments resulting from May 2008 Annual improvement to IFRSs
IAS 20	Government Grants and Disclosure of Government Assistance - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 23	Borrowing Costs - Comprehensive revision to prohibit immediate expensing
IAS 23	Borrowings Costs - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 27	Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS 3
IAS 27	Consolidated and Separate Financial Statements - Amendment relating to cost of an investment on first time adoption
IAS 27	Consolidated and Separate Financial Statements - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 28	Investments in Associates - Consequential amendments arising from amendments to IFRS 3
IAS 28	Investments in Associates - Amendments resulting from May 2008 Annual improvements to IFRSs
IAS 29	Financial Reporting in Hyperinflationary Economies - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 31	Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3
IAS 31	Interests in Joint Ventures - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 32	Financial Instruments: Presentation - Amendments relating to puttable instruments and obligations arising on liquidation
IAS 36	Impairment of Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 38	Intangible Assets - amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 39	Financial Instruments: Recognition and Measurement - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 40	Investment Property - Amendments resulting from May 2008 Annual Improvements to IFRSs
IAS 41	Agriculture - Amendments resulting from May 2008 Annual Improvements to IFRSs
IFRS 1	First-time Adoption of International Financial Reporting Standards - Amendment relating to cost of an investment on first-time adoption
IFRS 2	Share-based Payment - Amendment relating to vesting conditions and cancellations
IFRS 3	Business Combinations - Comprehensive revision on applying the acquisition method
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from May 2008 Annual Improvements to IFRSs
IFRS 8	Operating Segments
IFRIC 11	Group and Share Treasury Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programme
IFRIC 14	IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation

It is presently anticipated that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Bank.

3. ACCOUNTING POLICIES

The principal accounting policies adopted by the Bank are as follows:

Basis of preparation

The financial statements are presented in Mauritian Rupee. The financial statements are prepared in conformity with accounting principles applicable to Central Banks and best international practices in accordance with Section 31(1) of the Bank of Mauritius Act 2004. The Bank has prepared its financial statements under the historical cost convention as modified by the fair valuation of certain financial assets and in accordance with International Financial Reporting Standards ("IFRS").

(a) Financial instruments

(i) Classification

Assets or liabilities classified as Held-For-Trading, which is a subset of the Fair-Value-Through-Profit-or-Loss ("FVTPL") category, are those that are acquired or incurred principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin. A financial asset should be classified as Held-For-Trading if, regardless of why it was acquired, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These may include certain investments, certain purchased loans and derivative financial instruments. The Bank's investment in Bank for International Settlement ("BIS") portfolio and Government Securities fall in this classification.

Loans and Receivables are non-derivative financial assets created by the Bank by providing money, other than those created with the intention of short-term profit taking. Loans and Receivables comprise loans and advances to commercial Banks or other financial institutions under Special Lines of Credit.

Available-For-Sale assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, loans and receivables or Held-To-Maturity.

The Bank has the possibility to designate any financial asset or financial liability as at FVTPL, i.e. at fair value with changes in fair value recognised through profit or loss provided that the financial asset or financial liability satisfies certain conditions.

Management determines the appropriate classification of the Bank's financial assets and financial liabilities and re-evaluates such classification on a regular basis.

(ii) Initial recognition

The Bank recognises all financial instruments on its balance sheet when it becomes a party to the contractual provisions of the instrument. All regular transactions entered by the Bank are recognised on a trade date basis.

(iii) Measurement

Financial instruments are initially measured at fair value, which is the value of the consideration given (in the case of an asset) or received (in the case of a liability) for it, including transaction costs.

Subsequent to initial recognition, all Available-For-Sale assets are measured at fair value, except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case it is stated at amortised cost or cost, depending on whether there is a fixed maturity or not, less any impairment loss.

FVTPL (including Held-For-Trading) assets and liabilities are normally measured at fair value at subsequent reporting dates.

All non-trading financial liabilities are measured at amortised cost using the effective interest rate method.

Gold deposits have prudently been valued at 80% of the price of Gold on international market on the last working day of the month.

A financial asset is impaired when its carrying amount exceeds its recoverable amount.

The recoverable amount of a financial asset carried at amortised cost is the present value of expected future cash flows discounted at the original effective interest rate of the asset.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

(v) Gains and losses on subsequent measurement

Gains or losses on FVTPL (including Held-For-Trading) financial assets and financial liabilities arising from changes in their fair value are recognised in the Income Statement in the period in which they arise. Gains or losses on Available-For-Sale financial assets are recognised in equity. For those financial instruments carried at amortised cost, gains or losses are recognised in the Income Statement when the financial instrument is de-recognised or impaired and through the amortisation process.

(vi) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash balances, call deposits with other financial institutions and short-term highly liquid debt investments with remaining maturities of three months or less.

(b) Computer software

Under revised IAS 38- Intangible assets, computer software which does not form an integral part of computer hardware, is now classified as an intangible asset. Intangible assets are stated at cost, net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis at the rate of 33 1/3% per annum so as to write off the depreciable value of the assets over their estimated useful lives. A full year of amortisation is charged in the year of purchase.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line basis so as to write off the depreciable value of the assets to their estimated residual values over their estimated useful lives. A full year of depreciation is charged in the year of purchase.

Depreciation is provided at the following annual percentage rates:

Premises	- 2%
Furniture, equipment, fixtures and fittings	- 10%
Computer hardware/software and cellular phones	- 33 1/3%
Motor vehicles	- 40% for 1st year then 20% for the three subsequent years

No depreciation is provided on freehold land and capital work in progress.

(d) Notes and coins in circulation

Notes and coins issued represent an unserviced liability of the Bank of Mauritius and are recorded at face value.

The Bank also issues a range of Mauritius commemorative coins. All costs associated with the production of these numismatic coins are expensed in the Income Statement when incurred.

(e) Retirement benefits

Defined benefit pension plan

The present value of funded obligations is recognised in the balance sheet as a non-current liability after adjusting for the fair value of plan assets, any unrecognised actuarial gains and losses and any unrecognised past service cost. The valuation of the funded obligations is carried out every year by a firm of actuaries.

The current service cost and any recognised past service cost are included as an expense together with the associated interest cost, net of expected return on plan assets.

A portion of the actuarial gains and losses will be recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous accounting period exceeded the greater of:

(i) 10% of the present value of the defined benefit obligation at that date; and

(ii) 10% of the fair value of plan assets at that date.

State Plan

Contribution to the National Pension Scheme is expensed to the income statement in the period in which they fall due.

(f) Income and expenditure recognition

Income and expenditure are recognised as they are earned or incurred and are recorded in the financial statements on an accruals basis to accurately reflect the period to which they relate.

Dividend income from equity investments is accounted for in the Income Statement as other income when the right to receive payment is established.

(g) Foreign currencies

Transactions in foreign currencies are recorded in Mauritian Rupee using the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated in Mauritian Rupee using the rate of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are included in the Income Statement in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates). However, for the purpose of determining the net profit of the Bank in terms of Section 11 of the Bank of Mauritius Act 2004, foreign exchange differences are excluded in accordance with Section 47(2) of the Act. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transactions.

(h) Impairment

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

(i) Taxation

The Bank is exempted from any tax imposed on income, profits or capital gains under Section 64 of the Bank of Mauritius Act 2004.

(j) Comparative figures

Comparative figures have been restated or regrouped where necessary to conform to the current year's presentation.

(k) Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are determined by the Directors through their best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(l) Operating leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Related party transactions

For the purpose of these financial statements, parties are considered to be related to the Bank if they have the ability, directly or indirectly, to control the Bank, or exercise significant influence over the Bank in making financial and operating decisions, or vice versa or where the Bank is subject to common control or common significant influence. Related parties may be individual or other entities.

4. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with IFRS requires management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Judgements and estimates are continuously evaluated and are based on historical experience and other factors, including expectations and assumptions concerning future events that are believed to be reasonable under the circumstances. The actual results could, by definition therefore, often differ from the related accounting estimates.

Particular areas where management has applied a higher degree of judgement that have a significant effect on the amounts recognised in the financial statements, or estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:-

(i) Financial Assets (Note 9)

Government of Mauritius Treasury Bills

Government of Mauritius Treasury Bills have been revalued based on the latest market data available for these instruments.

Other Government Securities

Other Government Securities comprise Mauritius Development Loan Variable Interest Rate stocks which have been revalued using the straight line revaluation method and Treasury Notes which have been revalued using the discounted cash flow techniques, based on the latest market data available for similar instruments as at the balance sheet date.

(ii) Other Financial Liabilities (Note 14)

Bank of Mauritius Bills

Bank of Mauritius Bills have been revalued using the same valuation method as for Government of Mauritius Treasury Bills.

5. CAPITAL AND RESERVES

Capital

The Stated and Paid Up Capital of the Bank is Rs1 billion in accordance with Section 10 of the Bank of Mauritius Act 2004. All amounts paid as Capital are subscribed and held solely by the Government (refer to Note 1).

General Reserve Fund

The General Reserve Fund is a reserve fund created in accordance with Section 11 of the Bank of Mauritius Act 2004 (refer to Note 1).

Special Reserve Fund

In terms of Section 47(1) of the Bank of Mauritius Act 2004, the Special Reserve Fund is a reserve built up from any net realised gains or losses in any financial year of the Bank arising from changes in the valuation of its assets or liabilities in, or denominated in gold, SDR, or foreign currencies subsequent to any change in the values or exchange rates of gold, SDR, or foreign currencies in terms of the domestic currency.

Other Reserves

Other Reserves are reserves that have been carried forward from previous years.

6. CASH AND CASH EQUIVALENTS

	2008	2007
	Rs	Rs
Deposit Accounts	**16,267,558,734**	14,448,198,497
IMF Special Drawing Rights (SDR)	**832,967,762**	884,210,067
Repurchase Agreement	**4,955,556,270**	10,313,524,800
Current Accounts	**493,643,741**	826,963,835
Foreign Currency Notes and Coins	**445,813**	143,797
Gold Deposits	**1,254,064,876**	1,012,862,392
Foreign Liquid Securities	**110,919,568**	110,154,329
	23,915,156,764	27,596,057,717

7. OTHER BALANCES AND PLACEMENTS

	2008	2007
	Rs	Rs
Foreign Investments	**10,950,436,261**	12,803,732,981
Deposit Accounts	**21,529,301,094**	11,942,943,452
	32,479,737,355	24,746,676,433

Foreign investments comprise investments made through the Bank's Investment Manager, as follows:

	2008	2007
	Rs	Rs
Cash	**82,691,431**	52,137,719
Bonds	**10,857,511,741**	12,749,693,419
Other investments	**10,233,089**	1,901,843
	10,950,436,261	12,803,732,981

8. LOANS AND ADVANCES

	2008 Rs	2007 Rs
Special Line of Credit - Sugar Industry	**806,850,001**	1,339,533,899
Special Line of Credit - EPZ	**-**	221,933
Special Line of Credit - National Equity Fund	**73,055,491**	73,495,281
Others	**10,905,037**	13,592,361
	890,810,529	1,426,843,474

The above loans and advances are granted to local commercial banks or other financial institutions under special lines of credit mainly for onward lending to their customers

9. FINANCIAL ASSETS

	2008 Rs	2007 Rs
Government of Mauritius Treasury Bills	**468,006,737**	576,736,108
Other Government Securities	**137,464,424**	43,116,118
	605,471,161	619,852,226

10. COMPUTER SOFTWARE

	Rs
Cost	
At 1 July 2006	83,511,377
Additions	139,598
Disposal	(11,270)
At 30 June 2007	83,639,705
Additions	179,290
At 30 June 2008	**83,818,995**
Amortisation	
At 1 July 2006	82,786,491
Charge for the year	699,615
Disposal	(11,170)
At 30 June 2007	83,474,936
Charge for the year	170,384
At 30 June 2008	**83,645,320**
Net book value	
At 30 June 2008	**173,675**
At 30 June 2007	164,769

11. PROPERTY, PLANT AND EQUIPMENT

	Premises Rs	Capital Work* in Progress Rs	Other Properties Rs	Furniture, Equipment, Fixtures and Fittings Rs	Computer Equipment Rs	Motor Vehicles Rs	Total Rs
COST							
At 1 July 2006	42,054,989	1,327,024,268	65,215,078	83,536,158	21,860,844	26,482,907	1,566,174,244
Additions	-	421,206,872	-	78,038,844	1,456,709	3,485,572	504,187,997
Disposals	-	-	-	(467,518)	(363,165)	(8,690,462)	(9,521,145)
At 30 June 2007	42,054,989	1,748,231,140	65,215,078	161,107,484	22,954,388	21,278,017	2,060,841,096
Additions	4,108,136	44,196,670	-	9,875,152	16,006,169	11,153,840	85,339,967
Reclassification	-	-	-	(310,837)	310,837	-	-
Transfers	1,323,446,399	(1,792,427,810)	-	453,047,146	15,934,265	-	-
Scrapped	-	-	-	-	(252,668)	-	(252,668)
Disposals	-	-	-	(603,081)	(354,680)	(7,474,999)	(8,432,760)
At 30 June 2008	**1,369,609,524**	**-**	**65,215,078**	**623,115,864**	**54,598,311**	**24,956,858**	**2,137,495,635**
DEPRECIATION							
At 1 July 2006	8,093,843	-	-	42,742,713	20,319,157	21,976,910	93,132,623
Charge for the year	821,215	-	-	15,689,574	1,763,012	1,907,135	20,180,936
Disposals	-	-	-	(353,034)	(362,165)	(5,214,277)	(5,929,476)
At 30 June 2007	8,915,058	-	-	58,079,253	21,720,004	18,669,768	107,384,083
Charge for the year	27,372,306	-	-	61,502,079	11,408,388	5,669,556	105,952,329
Reclassification	-	-	-	(234,368)	234,368	-	-
Scrapped	-	-	-	-	(252,668)	-	(252,668)
Disposals	-	-	-	(603,033)	(353,780)	(7,473,999)	(8,430,812)
At 30 June 2008	**36,287,364**	**-**	**-**	**118,743,931**	**32,756,312**	**16,865,325**	**204,652,932**
NET BOOK VALUE							
At 30 June 2008	**1,333,322,160**	**-**	**65,215,078**	**504,371,933**	**21,841,999**	**8,091,533**	**1,932,842,703**
At 30 June 2007	33,139,931	1,748,231,140	65,215,078	103,028,231	1,234,384	2,608,249	1,953,457,013

**The Capital Work in Progress relates to the Bank of Mauritius New Head Office building project which was completed during the financial year.*

12. OTHER ASSETS

	2008 Rs	2007 Rs
Net Cheques to be cleared*	**179,214,448**	355,800,147
Staff Loans	**61,203,976**	74,575,704
Prepayments	**10,724,301**	3,981,398
Dodo Gold Coins with Banks	**12,776,400**	12,708,700
Interest Receivable	**5,188,937**	19,545,830
Others	**6,682,140**	95,188,278
	275,790,202	561,800,057

Net cheques to be cleared are cheques collected and cleared on the next working day.

13. NOTES AND COINS IN CIRCULATION

	2008 Rs	2007 Rs
Notes issued		
Face value		
2,000	**779,384,000**	733,416,000
1,000	**9,288,119,000**	8,289,104,000
500	**1,900,153,000**	1,648,516,500
200	**1,233,635,200**	1,140,369,800
100	**920,138,200**	882,500,200
50	**252,269,500**	234,642,650
25	**147,190,900**	155,152,900
20 *	**1,629,120**	1,630,640
10 *	**38,246,300**	38,314,550
5 *	**7,669,925**	7,674,835
Demonetised Notes	**485,700**	485,700
Total	**14,568,920,845**	13,131,807,775
Coins issued		
Face value		
20 rupees**	**34,086,740**	-
10 rupees	**200,753,440**	190,149,940
5 rupees	**85,596,600**	81,140,845
1 rupee	**105,364,869**	98,711,121
50 cents	**24,859,595**	23,549,572
25 cents *	**6,349,943**	6,355,623
20 cents	**31,540,321**	29,982,015
10 cents *	**2,430,325**	2,432,062
5 cents	**7,390,296**	6,768,127
2 cents *	**330,517**	330,521
1 cent	**221,701**	221,324
Others	**19,832,848**	19,672,243
Total	**518,757,195**	459,313,393
Total Notes and Coins in Circulation	**15,087,678,040**	13,591,121,168

** These denominations have ceased to be issued by the Bank*
*** The Bank introduced a 20 Rupee coin on 7 December 2007*

14. OTHER FINANCIAL LIABILITIES

	2008 Rs	2007 Rs
Bank of Mauritius Bills	**6,355,093,009**	5,913,926,401
Bank of Mauritius Savings Bonds	**943,400**	943,400
IBRD Financial Sector Infrastructure Project Loan	**-**	56,001,978
	6,356,036,409	5,970,871,779

The Bank issues Bank of Mauritius Bills ("BOM Bills") for monetary policy purposes. The Bills, which are accounted for as non-trading liabilities, may be repurchased by the Bank at market value where repurchase is agreed both by the Bank and the relevant holders. Once the Bills have been repurchased, they are immediately redeemed by the Bank.

At 30 June 2008, the nominal value of the BOM Bills issued and outstanding was Rs6,509.5 million (2007: Rs6,003.7 million).

15. PROVISIONS

	2008 Rs	2007 Rs
Balance at 1 July and 30 June	**100,000,000**	100,000,000

The provision relates to the liquidation of the MCCB Limited. Under the MCCB Limited (Liquidation) Act 1996, the Bank may make additional funds available to the liquidator of MCCB Limited where the liabilities of the MCCB Limited exceed the proceeds from the realisation of its assets. The liquidation of MCCB Limited is still in progress.

16. EMPLOYEE BENEFITS

Amounts recognised in the Balance Sheet

	2008 Rs	2007 Rs
Defined benefit plan (Note (a))	**54,390,781**	51,080,000
Short term employee benefits (Note (b))*	**46,635,890**	-
	101,026,671	51,080,000

*Provision for short term employee benefits has been made for the first time in 2007/2008. The comparative figure for 2006/2007 is Rs52,636,857 (annual and sick leave-Rs31,228,730 and air mileage Rs21,408,128)

(a) Defined benefit plan

The Bank operates a defined benefit plan for some of its employees and the plan is wholly funded. The assets of the funded plan are held independently and administered by The State Insurance Company of Mauritius Ltd.

The report dated 19 August 2008 submitted by the State Insurance Company of Mauritius Ltd is produced hereunder.

Amounts to be recognised in the Income Statement:

	2008 Rs	2007 Rs
Current service cost	**10,133,170**	11,830,000
Expected return on plan assets	**(33,742,404)**	(29,840,000)
Interest costs	**42,531,300**	38,390,000
Actuarial loss	**196,066**	450,000
Net periodic pension cost included in staff costs	**19,118,132**	20,830,000
Actual return on plan assets	**46,591,697**	43,150,000

16. EMPLOYEE BENEFITS (CONT'D)

(a) Defined benefit plan (Cont'd)

Movements in liability recognised in the Balance Sheet:

	2008	2007
	Rs	Rs
At 1 July	**51,080,000**	34,720,000
Total expenses as per above	**19,118,132**	20,830,000
Employer contributions	**(15,817,351)**	(16,080,000)
Charge for the previous year recognised in the current year	**-**	11,620,000
Adjustment/(Underprovision)	**10,000**	(10,000)
At 30 June	**54,390,781**	51,080,000

Movements in the present value of the defined benefit obligations in the current period were as follows:

	2008	2007
	Rs	Rs
At 1 July	**(405,060,000)**	(365,610,000)
Current service cost	**(10,133,170)**	(11,830,000)
Interest cost	**(42,531,300)**	(38,390,000)
Employee Contributions	**(4,051)**	-
Actuarial (losses)/gains	**37,256,478**	(14,500,000)
Benefits paid	**22,019,093**	25,270,000
At 30 June	**(398,452,950)**	(405,060,000)

Movements in the present value of the plan assets in the current period were as follows:

	2008	2007
	Rs	Rs
At 1 July	**309,850,000**	275,890,000
Expected return on plan assets	**33,742,404**	29,840,000
Actuarial gains	**12,849,293**	13,310,000
Contributions from the employer	**16,140,154**	16,450,000
Employee Contributions	**4,051**	-
Benefits paid	**(22,019,093)**	(25,270,000)
Scheme expenses	**(322,803)**	(370,000)
At 30 June	**350,244,006**	309,850,000

The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, are as follows:

	Expected rate of return at	
	30 June	30 June
	2008	2007
	%	%
Local equities	**30**	17
Overseas equities and bonds	**15**	19
Fixed interest	**54**	63
Others	**1**	1
Expected return on Plan Assets	**11**	11

16. EMPLOYEE BENEFITS (CONT'D)

(a) Defined benefit plan (Cont'd)

Amounts recognised in the balance sheet:

	2008	2007
	Rs	Rs
Total market value of assets	**350,244,006**	309,850,000
Present value of plan liability	**(398,452,950)**	(405,060,000)
Deficit	**(48,208,944)**	(95,210,000)
Unrecognised actuarial (gain)/loss	**(6,181,837)**	44,120,000
Underprovision	**-**	(10,000)
	(54,390,781)	(51,080,000)

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The directors' assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The actual return on plan assets was Rs46.59 million (2007: Rs43.16 million).

The history of experience adjustments is as follows:-

	2008	2007	2006	2005
	Rs	Rs	Rs	Rs
Present value of defined benefit obligation	**(398,452,950)**	(405,060,000)	(365,610,000)	(358,990,000)
Fair value of plan assets	**350,244,006**	309,850,000	275,890,000	239,810,000
(Deficit)/Surplus	**(48,208,944)**	(95,210,000)	(89,720,000)	(119,180,000)
Experience gains/(losses) on plan liabilities	**37,256,478**	(14,500,000)	31,240,000	(10,260,000)
Experience gains on plan assets	**12,849,293**	13,310,000	6,600,000	1,110,000

The Bank expects to make a contribution of Rs16.56 million to the defined benefit plans during the next financial year.

The principal actuarial assumptions used for accounting purposes were:

	2008 & 2007
Discount rate	10.5%
Expected return on plan assets	11.0%
Future long-term salary increases	7.5%
Post retirement mortality tables increases	5.5%

Retirement benefit obligations have been based on the report submitted by The State Insurance Company of Mauritius Ltd.

(b) Short term employee benefits

	2008	2007
	Rs	Rs
Provision for annual and sick leaves	**23,403,899**	-
Provision for air mileage	**23,231,991**	-
	46,635,890	-

(c) Defined contribution pension fund

	2008	2007
	Rs	Rs
Contributions expensed	**15,045,911**	15,180,341

(d) State pension plan

	2008	2007
	Rs	Rs
National Pension Scheme contributions charged	**676,100**	644,829

17. OTHER LIABILITIES

	2008 Rs	2007 Rs
Profit Payable to the Government of Mauritius for Transfer to Consolidated Fund in accordance with Section 11 (3) of the Bank of Mauritius Act 2004	**1,325,465,601**	900,000,000
Customers' Credits	**97,252,536**	205,333,100
Balance Payable to the Government of Mauritius for Transfer to Consolidated Fund (refer to page 126)	**559,823,879**	-
Abandoned Funds from Banks	**202,377,618**	157,272,196
Interests and Charges Payable	**10,429,776**	16,616,434
Foreign Bills sent for Collection Contra	**266,540**	88,849,245
Reserve for Repayment of Capital and Interest:		
- Bank of Mauritius Savings Bonds	**169,200**	169,200
Others	**102,750**	102,750
	2,195,887,900	1,368,342,925

18. INCOME FROM FINANCIAL ASSETS

(i) Interest and Similar Income on Foreign Assets

	2008 Rs	2007 Rs
Deposit Accounts	**1,713,395,380**	1,264,452,823
Fixed Income	**734,363,042**	594,843,946
Special Drawing Rights	**28,903,617**	36,353,740
Repurchase Agreements	**158,644,184**	198,736,471
Current Accounts	**34,713,236**	12,818,509
Gold Deposits	**1,376,433**	180,914
	2,671,395,892	2,107,386,403

(ii) Interest and Similar Income on Local Assets

	2008 Rs	2007 Rs
Loans and Advances		
Leasing Facilities/Special Lines of Credit to EPZ, Freeport Sectors and Sugar Industry	**54,388,462**	62,076,156
Loans and Advances to Banks/Government	**259,869**	78,122,895
Special Line of Credit - National Equity Fund	**4,491,783**	5,480,995
Advances under Repurchase Transactions	**-**	3,147,904
	59,140,114	148,827,950
Other Government Securities	**4,065,487**	4,514,101
Other Loans	**1,841,599**	2,062,614
	65,047,200	155,404,665

(iii) Others	2008 Rs	2007 Rs
Revaluation of Government Securities	**102,089,797**	198,746,506
Profit on Sale of Government of Mauritius Treasury Bills - Secondary Market Cell	**18,737,692**	35,536,199
Dividend Received	**701,507**	530,754
Profit on Sale of Fixed Assets	**666,106**	-
Loss on Sale of Industrial Gold and Gold Coins	**(201,097)**	(39,667)
Profit on Issue of Mauritius Commemorative Coins	**524,995**	291,209
Profit on Sale of Notes and Coins	**705**	4,910
	122,519,705	235,069,911
Total Income from Financial Assets	**2,858,962,797**	2,497,860,979

19. OTHER INCOME

	2008	2007
	Rs	Rs
Processing and Licence Fees	**21,000,315**	18,710,108
MACSS & MCIB Fees	**3,314,227**	1,923,707
Commissions	**558,284**	645,688
Premises Rental Account	**26,100**	11,050
	24,898,926	21,290,553

20. EXPENDITURE ON FINANCIAL LIABILITIES

	2008	2007
	Rs	Rs
Interest Expense and Similar Charges		
Reverse Repurchase Transactions	**-**	21,956,286
Government of Mauritius Accounts	**23,406,508**	4,405,105
IBRD Financial Sector Infrastructure Project Loan	**3,521,444**	4,496,098
	26,927,952	30,857,489

The Bank pays interest to the Government on its rupee and foreign currency accounts maintained at the Bank.

21. STAFF SALARIES AND OTHER BENEFITS

	2008	2007
	Rs	Rs
Staff Salaries and Allowances*	**174,466,144**	117,550,565
Pension Cost**	**19,450,935**	32,808,688
Staff Family Protection Scheme	**5,174,433**	4,964,807
National Savings Fund	**676,100**	644,829
	199,767,612	155,968,889

* The amount of Rs174,466,144 includes provision for short term employee benefits amounting to Rs46,635,890 (see note 16(b)).

**The 2007 figure includes actuarial valuation for two financial years i.e. 2007 and 2006 compared to one year in 2008.

22. COIN AND NOTE ISSUE EXPENSES

The increase in coin issue expenses arose from the issue of Rs20 coin whereas note issue expenses have increased on account of the reprint of existing family of bank notes.

23. DIRECTORS REMUNERATION

	2008	2007
	Rs	Rs
Governor and Deputy Governors	**8,418,239**	10,140,600
Other Directors	**2,160,000**	1,620,000
	10,578,239	11,760,600

24. OTHER EXPENDITURE

	2008	2007
	Rs	Rs
Stationery and Library	**3,041,846**	2,170,009
Postage, Telephone and Reuters	**14,570,252**	14,431,796
Loss on Sale of Property, Plant and Equipment	**-**	1,433,849
Others	**52,338**	60,832
	17,664,436	18,096,486

25. RECONCILIATION OF PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 Rs	2007 Rs
Net (Loss)/Profit for the Year	**(3,206,821,461)**	5,254,029,830
Adjustments for:		
Non-Cash Increase in Employee Benefits	**49,946,671**	16,360,000
Amortisation of Intangible Assets	**170,384**	699,615
Depreciation of Property, Plant and Equipment	**105,952,329**	20,180,936
(Profit)/Loss on Sale of Property, Plant and Equipment	**(666,106)**	1,433,849
Dividend Received	**(701,507)**	(530,754)
Fair Value increase/(decrease) on Other Investments	**1,994,524**	(467,198)
Operating Profit Before Working Capital Changes	**(3,050,125,166)**	5,291,706,278
Increase in Interest Receivable	**(291,273,664)**	(33,426,431)
Decrease in Loans and Advances	**536,032,945**	390,275,788
Decrease/(Increase) in Other Assets	**286,009,855**	(180,274,280)
Increase in Notes and Coins in Circulation	**1,496,556,872**	1,263,606,386
Increase/(Decrease) in Government Demand Deposits	**3,888,187,067**	(1,104,475,450)
Increase in Banks' Demand Deposits	**2,452,625,621**	432,671,389
Increase/(Decrease) in Other Financial Institutions' Demand Deposits	**7,940,175**	(135,118,358)
(Decrease)/Increase in Other Demand Deposits	**(531,445,230)**	541,665,303
Decrease in Other Liabilities	**(157,744,505)**	(30,847,723)
Increase in Other Financial Liabilities	**385,164,630**	1,720,689,907
Net Cash Inflow From Operating Activities	**5,021,928,600**	8,156,472,809

26. OPEN MARKET OPERATIONS

The Bank, in the pursuit of its objectives to maintain price stability and to promote orderly and balanced economic development undertakes open market operations to manage liquidity in the domestic foreign and money markets. As such, open market operations broadly refer to the issue of Bank of Mauritius Bills, outright sale and purchase of Government securities by the Bank, conduct of repurchase transactions, special deposit facility and intervention in the domestic foreign exchange market to either inject or withdraw funds from the system.

Repurchase transactions are conducted under the umbrella of the Master Repurchase Agreement that has been signed by all Former Category 1 Banks with the Bank of Mauritius. The repurchase transactions are treated as secured loans received or granted without changes in the portfolio of bills given as collateral.

From the Central Bank's point of view, reverse repurchase transactions involve absorbing liquidity from the domestic market by selling bills whereas repurchase transactions involve injecting liquidity in the market by purchasing bills.

27. COMMITMENTS AND OTHER CONTINGENCIES

Commitments and other contingencies not otherwise provided for in the financial statements and which existed at 30 June 2008 are as follows:

(i) Bank's Building and Staff Quarters in Rodrigues

The Bank has acquired on lease two plots of land in Rodrigues for the construction of its (a) building and (b) staff quarters. A total amount of Rs202 million has been budgeted accordingly.

(ii) Other Assets

An amount of Rs84.3 million has been earmarked for Other Assets.

(iii) Capital Subscription in the African Export - Import Bank

The Bank has a commitment to pay USD 900,000 for capital subscription in the African Export-Import Bank when call for payment will be made. This amount has not been accounted for as a liability in the financial statements.

(iv) Legal case against the Bank

The Bank has a contingent liability with respect to a claim made by a company for an amount of Rs15.3 million. However, this is not provided for in the financial statements as it is being disputed.

The directors are of the opinion that the likely outcome of the above item cannot be determined with reasonable certainty and no provision has been made in the financial statements.

28. OPERATING LEASE COMMITMENTS

	1 year	1 - 5yrs	Above 5 yrs	Total
	Rs	Rs	Rs	Rs
New office building Rodrigues	100	500	1,800	2,400
Bamboo Garden - Dubreuil	5,808	44,192	-	50,000
Fallback site - BPML	584,430	-	-	584,430
Archiving - Plaine-Lauzun DBM	330,000	330,000	-	660,000
	920,338	374,692	1,800	1,296,830

29. FINANCIAL INSTRUMENTS

(i) Introduction

A financial instrument, as defined by IAS 32 (Financial Instruments: Disclosure and Presentation), is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

As the monetary authority for Mauritius, the Bank's activities are policy orientated. In the course of carrying out its functions, the Bank is faced with financial risks, operational risks and reputational risks. The main financial risks to which the Bank is exposed to are credit risk, interest rate risk and foreign exchange risk. A significant proportion of these risks arise from the management of foreign exchange reserves of the Bank. The Financial Markets Operations Division (FMOD) of the Bank manages the foreign assets portfolio.

The foreign exchange risk or the capital loss as a consequence of fluctuations in the exchange rates is managed mainly through diversification of currency portfolios in which the Bank invests. In the management of foreign exchange reserves, minimising liquidity risk and maximising safety are the prime considerations in order to maintain an effective foreign exchange intervention capability.

The internal controls and risk management processes are audited regularly by the Internal Audit Division of the Bank. It examines the adequacy of the procedures and the compliance with the procedures and guidelines. The Internal Audit Division submits its report to the Audit Committee.

(ii) Categories of financial instruments

	2008	2007
	Rs	Rs
Financial Assets		
Fair value through profit or loss (FVTPL)		
- Designated as at FVTPL	**605,471,161**	619,852,226
Loans and receivables		
(including cash and cash equivalents)	**58,089,825,985**	54,297,723,849
	58,695,297,146	54,917,576,075
Financial Liabilities		
Fair value through profit or loss (FVTPL)		
- Designated as at FVTPL	**6,356,036,409**	5,970,871,779
Amortised cost	**17,814,986,273**	12,060,653,782
	24,171,022,682	18,031,525,561

(iii) Credit Risk

Disclosure of credit risk enables the users of financial statements to assess the extent to which failures by counterparties to discharge their obligations could adversely impact on the Bank's future cash inflows from financial assets held at the balance sheet date.

The Bank is exposed to credit risk which is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. Credit risk arises when the Bank provides liquidity to financial institutions through open market operations as part of monetary policy implementation. Credit risk on the securities held by the Bank is managed by holding only high quality marketable securities issued chiefly by Government of Mauritius. Credit risk also arises as a result of investment of foreign exchange reserves with foreign counterparties.

(a) The Bank's significant end-of-year concentration of credit exposure by geographical area was as follows:

	2008	2007
	Rs	Rs
Mauritius	**1,570,262,066**	2,133,980,104
USA	**15,837,640,881**	19,578,092,782
United Kingdom	**10,103,725,393**	10,184,992,605
Europe	**22,342,342,110**	13,836,346,511
Others	**8,841,326,696**	9,184,164,073
	58,695,297,146	54,917,576,075

(b) Concentrations of Credit Exposure

The Bank's significant end-of-year concentration of credit exposure by counterparty types was as follows:

	2008	2007
	Rs	Rs
Government	**11,059,744,650**	12,734,361,176
Supranational Financial Institutions	**1,075,034,100**	1,521,354,975
Foreign Banks and Financial Institutions	**45,544,188,949**	39,095,509,127
Other	**1,016,329,447**	1,566,350,797
	58,695,297,146	54,917,576,075

(c) Credit Exposure by Credit Rating

The following table presents the credit ratings of respective financial assets, based on the ratings of Standard and Poor's, Fitch Ratings and Moody's ratings. Under Fitch Ratings, AAA is the highest possible credit quality rating and indicates the lowest expectation of credit risk. It is assigned only in the case of exceptionally strong capacity for timely payment of financial commitments. AA is a very high credit quality grade, indicating a very low expectation of credit risk, and A is an upper medium grade, indicating a low expectation of credit risk; BBB is the lowest investment grade rating, indicating that there is currently a low expectation of credit risk and exhibits adequate protection parameters. Ratings lower than AAA can be modified by + or – signs to indicate relative standing within the major categories. NR indicates the entity has not been rated by Standard and Poor's, Fitch Ratings and Moody's. The Bank's investment in the shares in Afreximbank and SWIFT which typically do not obtain ratings and in Gold are denoted as NR. The Bank's investments with foreign Central Banks are presented separately.

Baa1 denotes ratings of Moody.*

	Credit Rating	**2008 Rs**	%	2007 Rs	%
Cash & Cash Equivalents	Central Banks	**17,273,953,469**	30.24	19,652,204,863	37.23
	AA+	**2,019,027,223**	3.54	2,323,196,498	4.40
	AA	**2,469,591,861**	4.32	3,647,387,820	6.92
	Baa2	**30,720**	-	-	-
	NR	**2,152,553,491**	3.77	1,973,268,536	3.74
Other Balances and Placements	Central Banks	**31,676,644,609**	55.45	23,574,420,093	44.66
	AA+	**372,539,504**	0.65	788,984,140	1.49
	AA	**430,553,242**	0.75	383,272,200	0.73
Interest Receivable	Central Banks	**611,885,664**	1.07	306,315,462	0.58
	AA+	**45,109,806**	0.08	49,723,381	0.09
	AA	**54,702,627**	0.10	64,397,948	0.12
	NR	**1,227,447**	-	1,215,089	-
Other Investments	NR	**17,215,417**	0.03	19,209,941	0.04
Total External Assets		**57,125,035,080**	100.00	52,783,595,971	100.00

29. FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Exposure by Credit Rating (cont'd)

	Credit Rating	**2008 Rs**	%	2007 Rs	%
Loans and Advances	AA+	**171,142,739**	10.90	260,590,940	12.21
	Baa2	**636,127,976**	40.51	1,069,386,868	50.11
	NR	**157,520,190**	10.03	184,150,070	8.63
Financial Assets	Baa2	**605,471,161**	38.56	619,852,226	29.05
Total Domestic Financial Assets		**1,570,262,066**	100.00	2,133,980,104	100.00

Summary by Major Credit Category

	Credit Rating	**2008 Rs**	%	2007 Rs	%
External Assets	Central Banks	**49,562,483,742**	86.76	43,532,940,418	82.47
	AA+	**2,436,676,533**	4.27	3,161,904,019	5.99
	AA	**2,954,847,730**	5.17	4,095,057,968	7.76
	Baa2	**30,720**	-	-	-
	NR	**2,170,996,355**	3.80	1,993,693,566	3.78
Total External Assets		**57,125,035,080**	100.00	52,783,595,971	100.00
Local Financial Assets	AA+	**171,142,739**	10.90	260,590,940	12.21
	Baa2	**1,241,599,137**	79.07	1,689,239,094	79.16
	NR	**157,520,190**	10.03	184,150,070	8.63
Total Domestic Financial Assets		**1,570,262,066**	100.00	2,133,980,104	100.00
Total Financial Assets		**58,695,297,146**		54,917,576,075	

(iv) Liquidity Risk

Liquidity risk is the difficulty that an entity will encounter in raising funds at short notice to meet financial commitments as and when they arise. Liquidity risk is also the risk arising from the possibility of an entity not realising the fair value of a financial asset that it may have to dispose of to meet a financial commitment.

In order to reduce the level of liquidity risk arising out of open market operations, the Bank requires highly liquid marketable securities such as Government of Mauritius Treasury Bills as collateral for loans.

The Bank manages liquidity of its foreign currency assets in order to settle commitments for Government as well as to intervene on the domestic foreign exchange market. The Bank has set limits with regard to currency and counterparty exposures to contain the risk.

29. FINANCIAL INSTRUMENTS (CONT'D)

(iv) Liquidity Risk

Maturity Analysis

	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 9 months Rs	Above 9 and up to 12 months Rs	Between 1 and 5 years Rs	Above 5 years Rs	Total Rs
At 30 June 2008							
Assets							
Foreign Assets	24,894,432,773	14,646,345,912	4,219,855,653	2,402,613,631	10,961,787,111	-	57,125,035,080
Loans and Advances	123,476,512	132,134,845	90,719,965	64,448,354	480,030,853	-	890,810,529
Financial Assets	449,962,237	18,044,500	-	-	137,464,424	-	605,471,161
Computer Software	-	-	-	173,675	-	-	173,675
Property, Plant and Equipment	-	-	-	-	1,932,842,703	-	1,932,842,703
Other Assets	-	-	-	-	-	275,790,202	275,790,202
Total Assets	25,467,871,522	14,796,525,257	4,310,575,618	2,467,235,660	13,512,125,091	275,790,202	60,830,123,350
Liabilities							
Notes and Coins in Circulation	-	-	-	-	-	15,087,678,040	15,087,678,040
Demand Deposits	17,515,356,119	-	-	-	-	-	17,515,356,119
Other Financial Liabilities	3,273,753,608	345,841,682	2,736,441,119	-	-	-	6,356,036,409
Provisions	-	-	-	-	100,000,000	-	100,000,000
Employee Benefits	-	-	-	-	-	101,026,671	101,026,671
Other Liabilities	559,823,879	1,325,465,601	-	-	310,598,420	-	2,195,887,900
Total Liabilities	21,348,933,606	1,671,307,283	2,736,441,119	-	410,598,420	15,188,704,711	41,355,985,139
Net Liquidity Gap	4,118,937,916	13,125,217,974	1,574,134,499	2,467,235,660	13,101,526,671	(14,912,914,509)	19,474,138,211

29. FINANCIAL INSTRUMENTS (CONT'D)

(iv) Liquidity Risk (cont'd)

Maturity Analysis

	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 9 months Rs	Above 9 and up to 12 months Rs	Between 1 and 5 years Rs	Above 5 years Rs	Total Rs
At 30 June 2007							
Assets							
Foreign Assets	27,828,154,273	5,986,872,326	1,239,274,958	4,894,887,513	12,834,406,901	-	52,783,595,971
Loans and Advances	202,393,292	107,098,936	110,930,597	118,934,433	851,772,646	35,713,570	1,426,843,474
Financial Assets	48,820,000	195,560,130	151,920,978	180,435,000	43,116,118	-	619,852,226
Computer Software	-	-	-	164,769	-	-	164,769
Property, Plant and Equipment	-	-	-	-	1,953,457,013	-	1,953,457,013
Other Assets	-	-	-	-	-	561,800,057	561,800,057
Total Assets	28,079,367,565	6,289,531,392	1,502,126,533	5,194,421,715	15,682,752,678	597,513,627	57,345,713,510
Liabilities							
Notes and Coins in Circulation	-	-	-	-	-	13,591,121,168	13,591,121,168
Demand Deposits	11,698,048,486	-	-	-	-	-	11,698,048,486
Other Financial Liabilities	5,135,283,911	257,283,106	521,359,384	-	-	56,945,378	5,970,871,779
Provisions	-	-	-	-	100,000,000	-	100,000,000
Employee Benefits	-	-	-	-	-	51,080,000	51,080,000
Other Liabilities	-	900,000,000	-	-	468,342,925	-	1,368,342,925
Total Liabilities	16,833,332,397	1,157,283,106	521,359,384	-	568,342,925	13,699,146,546	32,779,464,358
Net Liquidity Gap	11,246,035,168	5,132,248,286	980,767,149	5,194,421,715	15,114,409,753	(13,101,632,919)	24,566,249,152

(v) Interest Rate Risk

Repricing Analysis

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with specific financial assets and financial liabilities, whose interest rates are periodically reset to market, as well as the fair values of other instruments on which the interest rates are fixed throughout the period of the contract. The policy pertaining to changes in fair values due to changes on exchange rates is explained at section (vi) below.

The rates on financial assets and financial liabilities which are interest-bearing are set at or around current market levels.

The Bank's reserves management includes investments in a variety of foreign currency denominated cash, deposits and other securities. The Bank's objective is to maximise liquidity and safety through quality investments and, within these constraints, earn the maximum rate of return possible.

The following table demonstrates the sensitivity of the Bank's profit to interest rate changes, all other variables held constant.

	Increase/decrease in the yield curve overseas	**Effect on Profit Rs 2008**	Effect on Profit Rs 2007
Foreign Currency Portfolio	0.5%	**1,554,427,300**	1,597,773,514
	-0.5%	**(1,562,677,848)**	(1,597,773,514)
	Increase/decrease in basis points		
Government Securities	+50	**(1,056,962)**	(1,697,795)
	-50	**1,070,957**	1,710,027

The local Government Securities are marked to market in the Balance Sheet of the Bank of Mauritius as they are sold over the counter and traded on the Stock Exchange of Mauritius.

The tables below summarise the Bank's exposure to interest rate risk.

29. FINANCIAL INSTRUMENTS (CONT'D)

(v) Interest Rate Risk (cont'd)

Repricing Analysis

	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 9 months Rs	Above 9 and up to 12 months Rs	Over 12 months Rs	Non-interest bearing Rs	Total Rs
At 30 June 2008							
Assets							
Foreign Assets	13,401,365,680	18,004,899,930	1,417,544,700	12,626,512,115	10,961,787,111	712,925,544	57,125,035,080
Loans and Advances	123,476,512	132,134,845	90,719,965	64,448,354	480,030,853	-	890,810,529
Financial Assets	-	-	-	468,006,737	137,464,424	-	605,471,161
Computer Software	-	-	-	-	-	173,675	173,675
Property, Plant and Equipment	-	-	-	-	-	1,932,842,703	1,932,842,703
Other Assets	-	-	-	-	-	275,790,202	275,790,202
Total Assets	13,524,842,192	18,137,034,775	1,508,264,665	13,158,967,206	11,579,282,388	2,921,732,124	60,830,123,350
LESS: Liabilities							
Notes and Coins in Circulation	-	-	-	-	-	15,087,678,040	15,087,678,040
Demand Deposits	-	-	-	-	-	17,515,356,119	17,515,356,119
Other Financial Liabilities	1,415,011,800	1,858,741,808	-	3,082,282,801	-	-	6,356,036,409
Provisions	-	-	-	-	-	100,000,000	100,000,000
Employee Benefits	-	-	-	-	-	101,026,671	101,026,671
Other Liabilities	-	-	-	-	-	2,195,887,900	2,195,887,900
Total Liabilities	1,415,011,800	1,858,741,808	-	3,082,282,801	-	34,999,948,730	41,355,985,139
On Balance Sheet Interest Sensitivity Gap	12,109,830,392	16,278,292,967	1,508,264,665	10,076,684,405	11,579,282,388	(32,078,216,606)	19,474,138,211

29. FINANCIAL INSTRUMENTS (CONT'D)

(v) Interest Rate Risk (cont'd)

Repricing Analysis (Cont'd)

	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 9 months Rs	Above 9 and up to 12 months Rs	Over 12 months Rs	Non-interest bearing Rs	Total Rs
At 30 June 2007							
Assets							
Foreign Assets	20,236,974,080	8,108,383,567	1,212,213,900	9,981,285,826	12,803,732,980	441,005,618	52,783,595,971
Loans and Advances	200,945,157	107,098,936	110,930,597	118,934,433	875,341,990	13,592,361	1,426,843,474
Financial Assets	48,820,000	189,951,000	-	337,965,108	43,116,118	-	619,852,226
Computer Software	-	-	-	-	-	164,769	164,769
Property, Plant and Equipment	-	-	-	-	-	1,953,457,013	1,953,457,013
Other Assets	-	-	-	-	-	561,800,057	561,800,057
Total Assets	20,486,739,237	8,405,433,503	1,323,144,497	10,438,185,367	13,722,191,088	2,970,019,818	57,345,713,510
LESS: Liabilities							
Notes and Coins in Circulation	-	-	-	-	-	13,591,121,168	13,591,121,168
Demand Deposits	-	-	-	-	-	11,698,048,486	11,698,048,486
Other Financial Liabilities	4,022,489,228	1,370,077,789	-	521,359,384	56,945,378	-	5,970,871,779
Provisions	-	-	-	-	-	100,000,000	100,000,000
Employee Benefits	-	-	-	-	-	51,080,000	51,080,000
Other Liabilities	-	-	-	-	-	1,368,342,925	1,368,342,925
Total Liabilities	4,022,489,228	1,370,077,789	-	521,359,384	56,945,378	26,808,592,579	32,779,464,358
On Balance Sheet Interest							
Sensitivity Gap	16,464,250,009	7,035,355,714	1,323,144,497	9,916,825,983	13,665,245,710	(23,838,572,761)	24,566,249,152

29. FINANCIAL INSTRUMENTS (CONT'D)

(v) Interest Rate Risk (cont'd)

Effective Interest Rates

The interest-bearing assets earn interest at rates ranging from 6.77% p.a. to 13.56% p.a. (2007: 5.75% p.a. to 13.00% p.a.) for assets denominated in Mauritian rupee and from 0.02% p.a. to 9.0% p.a. (2007: 0.01% p.a. to 8.165% p.a.) for assets denominated in foreign currencies.

The interest-bearing liabilities bear interest at rates ranging from 6.75% p.a. to 11.70% p.a. (2007: 5.84% p.a. to 11.91% p.a.) for liabilities denominated in Mauritian rupee and from 5.99% p.a. to 7.30% p.a. (2007: 5.99% p.a. to 7.30% p.a.) for liabilities denominated in foreign currencies.

(vi) Foreign Currency Risk

The Bank of Mauritius has monetary assets and liabilities denominated in foreign currencies, which consist mainly of currencies of the major trading partners of Mauritius. The liabilities represent mainly deposits which have been placed on behalf of its customers.

The Bank does not hedge against risk of fluctuations in exchange rates. However, it has set aside a reserve for foreign exchange rate fluctuations called Special Reserve Fund, which is used to cater for movements due to appreciation/depreciation in foreign exchange.

The Bank considers it has a well diversified portfolio of foreign currencies which would mitigate any foreign currency risk that may arise from volatility in exchange rates. The composition of the Bank's External Assets based on the SDR Basket is as follows:

	2008 Rs million	2007 Rs million
SDR Basket	**46,251.75**	41,775.68
Non SDR Basket	**10,873.29**	11,007.92
	57,125.04	52,783.60

The SDR Basket comprises the following currencies: JPY, EUR, GBP and USD.

The following table demonstrates the sensitivity of the Bank's equity to exchange rate changes, all other variables held constant.

	Increase/decrease in MRU rate	**Effect on Equity Rs mn 2008**	Effect on Equity Rs mn 2007
Foreign Currency Portfolio	**50 cents**	**1,047.2**	833.5
	-50 cents	**(1,047.2)**	(833.5)

29. FINANCIAL INSTRUMENTS (CONT'D)

(vii) Fair Values and Carrying Amount

Fair values

	Carrying amount		Fair Value	
	2008	2007	**2008**	2007
	Rs	Rs	**Rs**	Rs
Financial Assets				
Cash and Cash Equivalents	**23,915,156,764**	27,596,057,717	**23,915,156,764**	27,596,057,717
Other Balances and Placements	**32,479,737,355**	24,746,676,433	**32,479,737,355**	24,746,676,433
Interest Receivable	**712,925,544**	421,651,880	**712,925,544**	421,651,880
Other Investments	**17,215,417**	19,209,941	**17,215,417**	19,209,941
Loans and Advances	**890,810,529**	1,426,843,474	**890,810,529**	1,426,843,474
Staff Loans	**61,203,976**	74,575,704	**61,203,976**	74,575,704
Other Financial Assets	**605,471,161**	619,852,226	**605,471,161**	619,852,226
Dodo Gold Coins with Banks	**12,776,400**	12,708,700	**12,776,400**	12,708,700
Total Financial Assets	**58,695,297,146**	54,917,576,075	**58,695,297,146**	54,917,576,075
Financial Liabilities				
Government	**5,062,218,879**	1,174,031,812	**5,062,218,879**	1,174,031,812
Banks	**11,932,756,231**	9,480,130,610	**11,932,756,231**	9,480,130,610
Other Financial Institutions	**98,724,287**	90,784,112	**98,724,287**	90,784,112
Others	**421,656,722**	953,101,952	**421,656,722**	953,101,952
Other Financial Liabilities	**6,356,036,409**	5,970,871,779	**6,356,036,409**	5,970,871,779
Customers' Credits	**97,252,536**	205,333,100	**97,252,536**	205,333,100
Abandoned Funds	**202,377,618**	157,272,196	**202,377,618**	157,272,196
Total Financial Liabilities	**24,171,022,682**	18,031,525,561	**24,171,022,682**	18,031,525,561

30. CAPITAL RISK MANAGEMENT

Under Section 10 of the Bank of Mauritius Act 2004, the stated and paid up capital of the Bank shall be not less than one billion rupees and shall be subscribed and held solely by the Government. Further, the amount paid as capital of the Bank may be increased from time to time by transfer from the General Reserve Fund or the Special Reserve Fund of such amounts as the Board may, with the approval of the Minister, resolve. The paid up capital presently stands at Rs1 billion.

31. RELATED PARTY TRANSACTIONS

The balances and transactions with Government of Mauritius, the shareholder, are disclosed in notes 9, 17 and 18 to the financial statements.

Short term benefits payable to directors are disclosed in note 22 as per their terms of appointment.

The Bank contributes for the post retirement benefits for some of its employees including the First Deputy Governor. An amount of Rs803,950 representing an adjustment in contribution in respect of the previous Governor was paid during the year. The contribution for the First Deputy Governor was Rs 290,293.

32. TRANSACTIONS WITH THE INTERNATIONAL MONETARY FUND ("IMF")

As a member of the IMF, Mauritius was allocated SDR 15,744,000 on which quarterly charges are payable to IMF. The Fund also remunerates the Bank on a quarterly basis on its SDR Holdings.

The Bank maintains two current accounts and one securities account for the IMF. The IMF No. 1 and No. 2 accounts appear under the heading "Demand Deposits from Other Financial Institutions". The Securities Account is kept off Balance Sheet.

Any quota increase is subscribed in local currency and in any freely convertible currency.

The value of the portion payable in freely convertible currency is paid by Government while the part in local currency is paid by way of non-negotiable, non-interest bearing securities issued by Government in favour of IMF, which are repayable on demand. These securities are lodged with the Bank acting as custodian for the IMF. The Securities Account form part of the records of Government.

The Bank of Mauritius revalues IMF accounts in its balance sheet in accordance with the practices of the IMF's Treasury Department. In general, the revaluation is effected annually and whenever the Fund makes use of Mauritian rupees in accordance with the Designation Plan.

List of Charts

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Appendix I Board of Directors as at 30 June 2008

Chairman	Mr Rundheersing Bheenick, Governor
Director	Mr Yandraduth Googoolye, First Deputy Governor
Director	Dr Ahmad Jameel Khadaroo, Second Deputy Governor
Director	Mr Mohunlall Ramphul
Director	Mr Shyam Razkumar Seebun
Director	Mr Jacques Tin Miow Li Wan Po
Director	Mr Jean George Archimede Lascie
Director	Mr Kader Bhayat S.C.
Director	Mr Gooroonaden Vydelingum

Appendix II Monetary Policy Committee

Members

Mr Rundheersing Bheenick	Governor of the Bank of Mauritius and Chairperson
Mr Yandraduth Googoolye	First Deputy Governor of the Bank of Mauritius
Dr Ahmad Jameel Khadaroo	Second Deputy Governor of the Bank of Mauritius
Mr Jacques Tin Miow Li Wan Po	Board Director of the Bank of Mauritius
Mr Shyam Razkumar Seebun	Board Director of the Bank of Mauritius
Mr Jagnaden Padiaty Coopamah	External Member
Mr Pierre Dinan	External Member
Professor Stefan Gerlach	External Member, (with effect from September 2007) Professor of Monetary Economics at the Institute for Monetary and Financial Stability, Johann Wolfgang Goethe University of Frankfurt, Germany.

Observers

Professor Stefan Gerlach	(up to August 2007) Head of Secretariat of the Committee on the Global Financial System at the Bank for International Settlements, Basel, Switzerland
Mr Hemraz Oopuddhye Jankee	Chief Economist at the Bank of Mauritius
Dr Streevarsen Narrainen	Senior Economic Adviser, Ministry of Finance and Economic Development

Honorary Adviser

Dr Mario I. Blejer	Director of the Centre for Central Banking Studies at the Bank of England, United Kingdom, up to May 2008; thereafter Director and Member of the Board of YPF, the Argentine Petroleum Company, and the IRSA SA as well as a consultant

Appendix III Senior Management Officials

Governor	Mr Rundheersing Bheenick
First Deputy Governor	Mr Yandraduth Googoolye
Second Deputy Governor	Dr Ahmad Jameel Khadaroo

Secretary	Mrs Hemlata Sadhna Sewraj-Gopal
Chief Economist	Mr Hemraz Oopuddhye Jankee
Director - Supervision	Mr Nurani Subramanian Vishwanathan
Head - Corporate Services Division	Mr Radhakrishnan Sooben
Head - Accounting & Budgeting Division	Mr Jayendra Kumar Ramtohul
Head - Regulation, Policy & Licensing Division	Mr Ramsamy Chinniah
Head - Financial Markets Operations Division	Mr Jaywant Pandoo
Head - Financial Markets Analysis Division	Mrs Marjorie Marie-Agnes Heerah Pampusa
Director - Change Management Office	Mr Mardayah Kona Yerukunondu
Head - Economic Analysis Division	Mr Mahendra Vikramdass Punchoo
Head - Statistics Division	Mr Jitendra Nathsingh Bissessur
Head - Banking & Currency Division	Mr Anil Kumar Tohooloo
Head - Supervision, On-Site Division	Mrs Sudha Hurrymun
Head - Internal Audit	Mr Yuntat Chu Fung Leung
Head - Payments System & MCIB Division	Mr Dhanesswurnath Thakoor
Head - Supervision, Off-Site Division	Mr Deenesh Ghurburrun

Appendix IV Meetings attended by Governor, First Deputy Governor and Second Deputy Governor

The Governor attended:

- the Annual Smart Partnership International Dialogue and the Symposium of African Central Bank Governors (Langkawi, Malaysia – August 2007)
- the 31st Meeting of Governors of the Association of African Central Banks (Tripoli, Libya – August 2007)
- the Standard Bank – Emerging Financial Markets Conference (Cape Town, South Africa – September 2007)
- the Meeting of Commonwealth Central Bank Governors and the IMF/World Bank Annual Meetings (George Town, Guyana and Washington D.C., USA – October 2007)
- the BIS Roundtable of Governors (Cape Town, South Africa – November 2007)
- the Pre-Monetary Policy Committee Meeting (London, UK – November 2007)
- the BIS Forum on Central Bank Governance (Livingstone, Zambia – February 2008)
- a “Colloque International” at the “Banque de France” (Paris, France – March 2008)
- the IMF Spring Meetings and a Seminar organised by the World Bank (Washington D.C., USA – April 2008)
- the Meeting of the Committee of Central Bank Governors (CCBG) in SADC (Pretoria, South Africa – April 2008)
- the Bank of England Central Bank Governors Meeting and the Annual General Meeting of the BIS (London, UK and Basle, Switzerland – June/July 2008)

The Governor also delivered a talk on “How does a Small Open Economy faced with Unprecedented Capital Flows conduct Monetary Policy” at the Reserve Bank of India in March 2008.

The First Deputy Governor attended:

- the FICCI – IBA Conference on “Global Banking Paradigm Shift” (Mumbai, India – September 2007)
- the OGBS Meeting (Macao, China – October 2007)
- the Seminar on Corporate Governance Issues in Islamic Finance (Bahrain – March 2008)
- the Fifth Islamic Financial Services Board Summit International (Amman, Jordan – May 2008)
- the 15th Meeting of Central Bank Governors of Francophone Countries (Luxemburg – May 2008)
- the World Bank / IMF / Federal Reserve System, Eighth Annual International Seminar on Policy Challenges for the Financial Sector (Washington D.C., USA – June 2008)

The Second Deputy Governor attended:

- the Celebrations of the 50th Anniversary of the Bank of Ghana (Accra, Ghana – August 2007)
- the African Economic Conference on Opportunities and Challenges of Development for Africa in the Global Arena; and the AACB Technical Meeting, AACB Bureau Meeting, AU-AACB Experts Meeting and the AU-AACB Joint Committee Meeting (Addis Ababa, Ethiopia – November 2007)
- the Board Meeting of African Export-Import Bank (Johannesburg, South Africa – December 2007)
- the OGBS Meeting (London, UK – March 2008)
- the Board Meeting of African Export-Import Bank (Abuja, Nigeria – March 2008)
- the In-house Economics Training Course organised by the IMF (Washington D.C., USA – April 2008)
- the Board Meeting of African Export-Import Bank (Abidjan, Cote d’Ivoire – June 2008)

Appendix V Overseas Training Courses/ Seminars/Workshops

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr Y Chu Fung Leung	Manager	Internal Audit	02 to 06 July 2007	Internal Auditing Course	Bank of England, London
	Head	Internal Audit	17 to 25 April 2008	Seminar on Safeguards Assessments of Central Banks	Joint Africa Institute – Tunis, Tunisia
Mr G Beegoo	Research Officer	Research	05 & 06 July 2007	Workshop on Current Issues on Monetary Policy, Exchange Rate Policy and Financial Stability	National Institute of Bank Management, Mumbai, India
Mr D Audit	Research Officer	Research	30 & 31 July 2007	Programme for the Meeting of Governors of the African Caucus	IMF and World Bank, Maputo, Mozambique
Mrs A Jang	Junior Dealer	Financial Markets Operations	30 July to 03 August 2007	Seminar on Fundamentals of Reserve Management	BIS, Lucerne, Switzerland
Mr G Gonpot	Senior Bank Officer	Supervision	20 to 24 August 2007	14th Meeting of the ESAAMLG Task Force of Senior Officials	Gaborone, Botswana
Mr R Chinniah	Assistant Director	Supervision	29 to 31 August 2007	Meeting of the Committee of Central Bank Governors in SADC	Pretoria, South Africa
	Head	Regulation, Policy and Licensing	01 & 02 April 2008	Meeting of the SADC Sub-Committee of Banking Supervisors	Luanda, Angola
			28 to 30 April 2008	Meeting of the Committee of Central Bank Governors in SADC	Pretoria, South Africa

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr H O Jankee	Chief Economist	-	31 August 2007	Meeting of the Committee of Central Bank Governors in SADC	Pretoria, South Africa
			04 & 05 September 2007	Ad Hoc Expert Group Meeting to review a Report on Assessment of Macroeconomic Policy and Institutional Convergence in SADC	Johannesburg, South Africa
			05 & 07 November 2007	12th Meeting of the COMESA Committee of Central Bank Experts on Finance and Monetary Affairs	Tripoli, Libya
			08 & 09 November 2007	12th Meeting of the COMESA Committee of Governors of Central Banks	Tripoli, Libya
			29 May 2008	Meeting of the Bureau organized by the Association of African Central Banks	Tripoli, Libya
Mr Y Rughoobur	Senior Bank Examiner	Supervision	04 to 06 September 2007	Seminar on Market Risk and Counterparty Risk	FSI & IOSC, Madrid, Spain
Mr M Kona Yerukunondu	Director	Change Management Office	03 to 07 September 2007	PROSCI's Change Management Program followed by a working session	Bank Negara Malaysia
			17 to 19 March 2008	15th Meeting of the ESAAMLG Task Force of Senior Officials	Dar Es Salaam, Tanzania
Mr J N Bissessur	Assistant Director	Research (Statistics)	05 to 07 September 2007	Workshop on Methodological Standards for Compilation of Statistics on Foreign Direct Investment and the Activities of Transnational Corporations	Lusaka, Zambia
	Head	Statistics	10 to 12 March 2008	First Meeting of COMESA Task Force on FDI/TNC Statistics	COMESA Secretariat – Lusaka, Zambia

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr B Baijnath	Analyst Programmer	IT	06 & 07 September 2007	Information Workshop on the Regional Payment and Settlement System, with CMA Small Systems AB	Johannesburg, South Africa
			07 to 09 May 2008	Financial Services Global Leadership Summit	Athens, Greece
Mr A A Massafeer	Senior Bank Examiner	Supervision	25 to 27 September 2007	FSI Seminar on Supervising Banking Institutions' Efforts to Prevent Money Laundering and Terrorism Financing	BIS – Basel Switzerland
Mrs P Lo Tiap Kwong	Research Officer	Research	02 to 05 October 2007	Monetary Policy Course, organised by the SADC Training and Development Forum	Bank of Tanzania, Mwanza, Tanzania
Mr P Nundlall	Senior Bank Examiner	Supervision	08 to 10 October 2007	FSI Basel II Workshop	Windhoek, Namibia
			25 to 30 November 2007	Bank Negara Malaysia 1st Islamic Finance Course for Financial Regulators	Kuala Lumpur, Malaysia
Mr C S Rutah	Internal Auditor	Internal Audit	11 to 19 October 2007	Workshop on Financial Markets, Instruments, and Institutions & Central Banking Seminar	Federal Reserve Bank, New York
Mr S Ramnarainsing	Senior Accounts Officer	Accounting & Budgeting	15 to 17 October 2007	Workshop on Retail Payment System Risk Reduction and Mobile Technology	Centurion, South Africa
Mr R Ramsohok	Senior Bank Examiner	Supervision	15 to 19 October 2007	"Séminaire Destiné Aux Cadres Supérieurs Des Organismes De Contrôle Des Banques Dans Les Pays En Voie De Développement Francophones"	Paris, France

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr R Bullyraz	Senior Bank Examiner	Supervision	15 to 26 October 2007	World Bank/ Federal Reserve Board/IMF Seminar for Senior Bank Supervisors from Emerging Economies	Federal Training Centre, Washington
Mrs L D Maistry	Senior Bank Examiner	Regulation, Policy & Licensing	16 to 18 October 2007	FSI Seminar on Implementation of the Basel II Operational Risk Advanced Measurement Approaches – Current Issues and Key Outstanding Issues	BIS – Basel, Switzerland
Mr S Ramrutton	Senior Research Officer	Economic Analysis	29 to 31 October 2007	4th Meeting of the Monetary and Exchange Rate Policies Sub-Committee	Bujumbura, Burundi
Mr Y W Khodabocus	Chief	Monetary Policy	05 to 08 November 2007	Advanced Economic Modelling and Forecasting Seminar	SARB Conference Centre – Pretoria, South Africa
Mr K Ramnauth	Research Officer	Research	05 to 16 November 2007	Course on Macroeconomic Management and Fiscal Policy	Stellenbosch University, South Africa
	Chief	Knowledge Management Centre	15 to 25 April 2008	Attachment/Study visit at the Bank Negara Malaysia	Kuala Lumpur, Malaysia
Mr R Sooben	Head	Corporate Services	12 & 13 November 2007	Symposium on “Central Bank Independence, Does It Hurt the Treasury?”	Livingstone, Zambia
	Head	Corporate Services	26 March 2008	6th General Assembly of the Islamic Financial Services Board	Jeddah, Kingdom of Saudi Arabia
Mr A K Tohooloo	Head	Banking and Currency	15 to 18 November 2007	3rd Edition of Seminar “The Life Cycle of Currency”	Bank of Mozambique – Maputo, Mozambique
Mr J K Choolhun	Manager	Financial Markets Operations	16 November 2007	BIS Roundtable Meeting on Local Currency Bond Markets in Africa	South African Reserve Bank - Pretoria, South Africa
Mrs N Nabee	Chief	Regulation, Policy and Licensing	09 to 22 November 2007	On Attachment with the Islamic Financial Services Board	Kuala Lumpur, Malaysia

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
			05 to 06 December 2007	2nd Islamic Financial Services Forum: The European Challenge	Frankfurt, Germany
Mr C Ellapah	Chief	Statistics	03 to 07 December 2007	Meeting of the AACB Technical Committee	Entebbe, Uganda
Mr V K Ranlaul	Analyst Programmer	IT	04 & 05 December 2007	2nd Annual Bank Tech Congress	Mumbai, India
Mr A K Dowlut	Senior Analyst Programmer	IT	10 to 14 December 2007	BETA testing for REPSS	COMESA Clearing House – Johannesburg, South Africa
Mr J Pandoo	Head	Financial Markets Operations	10 to 13 December 2007	17th OECD Forum on Public Debt Management and the 2nd OECD Forum on African Public Debt Management	Amsterdam, Netherlands
Mr B Unmar	Research Officer	Statistics	14 to 17 January 2008	Programme on Cointegration of Money Demand	Reserve Bank of India – Mumbai, India
Mrs R Jutton-Gopy	Legal Officer	Legal	15 & 16 January 2008	Seminar on Islamic Finance	Hong Kong
Miss H Kasseeah	Research Officer	Monetary Policy	21 January to 01 February 2008	Course on Monetary and Exchange Rate Policy	Bank of Tanzania - Mwanza, Tanzania
Mr M H Gendoo	Research Officer	Statistics	21 January to 01 February 2008	Course on Monetary and Exchange Rate Policy	Bank of Tanzania - Mwanza, Tanzania
Mr M V Punchoo	Head	Economic Analysis	28 January to 01 February 2008	Course on Macroeconomics in Emerging Markets	IMF Headquarters – Washington, D C
Mr J Moosoohur	Analyst	Financial Markets Operations	11 February to 07 March 2008	39th International Central Banking Course	National Institute of Banking and Finance, Pakistan
Dr D Bacorisen	Executive Assistant	Second Deputy Governor's Office	25 February to 13 March 2008	Course on Monetary Policy, Exchange Rates and Capital Flows	Study Centre Gerzensee, Switzerland
Mr N C J Li Yun Fong	Chief	IT	03 to 07 March 2008	SADC Central Banks Information Technology Forum Annual Conference	Livingstone, Zambia
Mr G Daboo	Research Officer	Statistics	24 March to 11 April 2008	Course on Monetary and Financial Statistics	Joint Africa Institute – Tunis, Tunisia

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr S Gopaul	Chief	Financial Markets Operations	07 to 11 April 2008	DMS Pan-Commonwealth Workshop on the Issuance of Government Securities and the Commonwealth Securities Auction System	Commonwealth Secretariat – Pretoria, South Africa
Mrs S D Purryag	Senior Bank Examiner	Supervision	08 to 09 April 2008	Standard Chartered Bank Basel II College	Financial Services Authority – London, UK
Miss M L G Philibert	Senior Bank Examiner	Supervision	08 to 11 April 2007	International Seminar on Core Principles for Effective Banking Supervision	Reserve Bank of India – Chennai, India
Mr T S Leong Mook Seng	Documentation Officer	Knowledge Management Centre	15 to 25 April 2008	Attachment/Study visit at the Bank Negara Malaysia	Kuala Lumpur, Malaysia
Mrs M L C Bastien Sylva	Senior Bank Examiner	Regulation, Policy & Licensing	22 to 24 April 2008	Seminar on Basel II and Solvency II	FSI – Basel, Switzerland
Mrs N Sajadah-Aujayeb	Legal Officer	Legal	23 April 2008	Meeting of Committee on Legal and Operational Frameworks of SADC Central Banks	Pretoria, South Africa
Mr D Thakoor	Head	Payments System and MCIB	28 to 30 April 2008	Seminar on Payments System in Africa organized by the Association of African Central Banks	Tunis, Tunisia
Mr H Budhna	Senior Accounts Officer	Accounting & Budgeting	28 to 30 April 2008	Seminar on Payments System in Africa organized by the Association of African Central Banks	Tunis, Tunisia
Mrs P S Hurree-Gobin	Chief	Statistics	28 to 30 April 2008	5th Meeting of the COMESA Monetary and Exchange Rate Policies Sub-Committee	Lusaka, Zambia
Mr D Ghurburrun	Chief	Supervision	06 to 08 May 2008	Seminar on Dealing with Problem Bank Situations	FSI – Basel, Switzerland

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mrs S Hurrymun	Head	Supervision	12 to 16 May 2008	Capacity Enhancement Program on Anti-Money Laundering and Combating the Financing of Terrorism "Train the Trainers" Workshop	Windhoek, Namibia
Mr B Cunniah	Technical Officer Grade A	Facilities Management	11 May to 05 June 2008	Factory training with respect to operation, maintenance and trouble shooting of the Giesecke & Devrient (G&D) Banknote Sorting Machine	Dubai
Mr B Jawaheer	Senior Bank Examiner	Supervision	19 to 23 May 2008	Bank Supervision Course	New York, USA
Mr R Kallychurn	Analyst Programmer	IT	19 to 22 May 2008	SWIFT Regional Conference in Africa	Durban, South Africa
Miss M M Lauricourt	Senior Bank Examiner	Regulation Policy & Licensing	27 to 29 May 2008	Seminar on International accounting and Auditing Standards for Central Banks in the East and Southern Africa Region	Gaborone, Botswana
Mr N Mundboth	Chief	Facilities Management	01 to 07 June 2008	"Currency-Intelligence-Security Exhibition 2008"	Venlo, Netherlands
Dr D Mulliah	Analyst	Statistics	09 to 13 June 2008	Course on Macroeconometric Modeling and Forecasting Using EViews	IMF Headquarters – Washington, USA
Mr M S Gopaul	Internal Auditor	Internal Audit	12 & 13 June 2008	"1ère Conférence des Chefs d'Audit Interne des Banques Centrales des Pays Francophones"	Banque de France – Paris, France
Mr R Ramtale	Administrative Officer (Acting)	Currency Office	26 & 27 June 2008	2nd Central Bank Seminar on Banknotes	European Central Bank – Frankfurt, Germany

Appendix VI Local Courses/Seminars/Workshops

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr B Baijnath	Analyst Programmer	IT	07 & 08 August 2007	SWIFT Training Courses	-
Mr I Seetohul	Analyst Programmer	IT	09 & 10 August 2007	SWIFT Training Courses	-
Mr D D Belut	Acting Manager	Banking Office	7-10 August 2007	SWIFT Training Courses	-
Mr A K Ramkurrun	Senior Bank Officer	ABPS Department	7-10 August 2007	SWIFT Training Courses	-
			04 September 2007	SWIFT Users	MCB Ltd, Port Louis
Mrs S D Purryag	Bank Officer Grade I	ABPS Department	7-10 August 2007	SWIFT Training Courses	-
Mr S Ramnarainsing	Senior Accounts Officer	ABPS Department	7-10 August 2007	SWIFT Training Courses	-
Mr H O Jankee	Chief Economist	-	09 August 2007	Presentation on Productivity Improvement	NPCC – Alexander House, Ebene
			17 August 2007	Meeting of Directors organized by the National Committee on Corporate Governance	Labourdonnais Waterfront Hotel, Port Louis
			29 August 2007	Workshop on Study on Development of the Services Sector in the context of EPA negotiations	National Assembly, Port Louis
			13 & 14 September 2007	Workshop on the Concept Paper on Trade in Services	Ministry of Foreign Affairs
			23 to 26 January 2008	Symposium on Enhancing Value-Addition in the Export of Financial Services	Hilton Mauritius Resort and Spa
Mr K Ramnauth	Research Officer	Research	08 to 10 August 2007	National Training Workshop on Competition Policy & Law	Institute for Consumer Protection, Port Louis

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr I Seetohul	Analyst Programmer	IT	04 September 2007	SWIFT Users	MCB Ltd, Port Louis
			13 February 2008	SWIFT User Group Meeting	MCB Ltd, Port Louis
Mr J K Ramtohul	Assistant Director	ABPS Department	06 September 2007	Seminar on Business Continuity Planning organized by the Mauritius Bankers Association	MCB Club House, Curepipe
Mr A K Dowlut	Senior Analyst Programmer	IT	06 September 2007	Seminar on Business Continuity Planning organized by the Mauritius Bankers Association	MCB Club House, Curepipe
			20 September 2007	Exclusive Event Highlighting Oracle's Customer-Centric Solution for the Financial Services Industry	Labourdonnais Waterfront Hotel, Port Louis
Mr V P A Koonjul	Junior Dealer	Financial Markets	06 September 2007	Seminar on Business Continuity Planning organized by the Mauritius Bankers Association	MCB Club House, Curepipe
	Analyst	Financial Markets	24 & 25 March 2008	Training workshop on Local Currency Trading and Risk Management	Le Maritim Hotel, Balaclava
Mrs P S Hurree Gobin	Senior Research Officer	Research	13 & 14 September 2007	Workshop on the Concept Paper on Trade in Services elaborated by UNCTD	Ministry of Foreign Affairs, International Trade and Cooperation
Mr D Gukhool	Analyst Programmer	IT	20 September 2007	Exclusive Event Highlighting Oracle's Customer-Centric Solution for the Financial Services Industry	Labourdonnais Waterfront Hotel, Port Louis
Dr D Bacorisen	Research Officer	Research	03 & 04 October 2007	Workshop on Financial Markets for Beginners and Derivatives Markets	Anglo Conference Room, Port Louis

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr M H Gendoo	Research Officer	Statistics	03 & 04 October 2007	Workshop on Financial Markets for Beginners and Derivatives Markets	Anglo Conference Room, Port Louis
Miss P N Gopy	Senior Accounts Officer	Accounting & Budgeting	16 October 2007	Seminar on International Financial Reporting Standard Update	Le Labourdonnais Hotel, Port Louis
Mr H Budhna	Senior Accounts Officer	Accounting & Budgeting	16 October 2007	Seminar on International Financial Reporting Standard update	Le Labourdonnais Hotel, Port Louis
Mr R Kallychurn	Analyst Programmer	IT	22 to 26 October 2007	SUSE Linux Enterprise Server 10 Administration courses	FRCI Ltd, Les Pailles
			02 & 03 April 2008	Self Service and Payment Systems Conference & Exhibition organized by Blanche Birger and NCR	Labourdonnais Waterfront Hotel, Port Louis
Mr M Kona Yerukunondu	Director	Change Management Office	03 to 07 September 2007	Delivered a short presentation on ACCA Mauritius Professional and Ethics Conference	Le Meridien Hotel, Pointe Aux Piments
Mrs B Gungaram	Bank Officer Grade I	Financial Markets Operations	06 & 07 November 2007	Workshop on Foreign Exchange & Risk Management	Mauritian Quality Institute, Port Louis
			24 & 25 March 2008	Training workshop on Local Currency Trading and Risk Management	Le Maritim Hotel, Balaclava
Mr H Ramsurn	Chief Bank Examiner	Supervision	29 November 2007	Talk on Fighting Corruption: Are We Winning?	British Council
Mr D Rughoobur	Senior Bank Examiner	Supervision	29 November 2007	Talk on Fighting Corruption: Are We Winning?	British Council
Mr P Seeballuck	Chief	Payments System & MCIB	13 February 2008	SWIFT User Group Meeting	MCB Ltd, Port Louis
Mr B Kwok Chung Yee	Executive Assistant	First Deputy Governor's Office	21 February 2008	Meeting on Seychelles–Mauritius Joint Commission	Ministry of Foreign Affairs, International Trade and Cooperation

NAME	DESIGNATION	DIVISION/UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Mr J K Choolhun	Chief	Financial Markets Operations	24 & 25 March 2008	Training workshop on Local Currency Trading and Risk Management	Le Maritim Hotel, Balaclava
Mrs P J S Ghoorah	Bank Officer Grade I	Financial Markets Operations	24 & 25 March 2008	Training workshop on Local Currency Trading and Risk Management	Le Maritim Hotel, Balaclava
Mr I F Beekun	Analyst Programmer	IT	26 March 2008	Workshop on Office XML Document Revised DIS 29500	Mauritius Standard Bureau, Moka
Mrs M M A Heerah-Pampusa	Head	Financial Markets Analysis	31 March & 09 April 2008	Inter-Ministerial Committee on Impact of the Appreciation of the Mauritian Rupee on the Price of Imported Goods	Ministry of Women's Rights, Child Development, Family Welfare & Consumer Protection
Mrs T Gobin Jhurry	Chief	Payments System & MCIB	02 & 03 April 2008	Self Service and Payment Systems Conference & Exhibition	Labourdonnais Waterfront Hotel, Port Louis
Mr K Pitteea	Analyst	Financial Markets Analysis	10 & 11 April 2008	Training course in Financial Planning and Wealth Management organized by PluriConseil Ltd	Swami Vivekananda International Convention Centre, Pailles
Mr R Sooben	Head	Corporate Services	14 & 15 April 2008	Delivered a talk at the Seminar on the Export of Human Resources Development Services organised by the BOI and the Commonwealth Secretariat	Le Meridien Hotel, Pointe aux Piments
Mrs H S Sewraj-Gopal	Secretary	-	27 May 2008	Workshop for Internal Auditors organized by ICAC	Rajiv Gandhi Science Centre, Bell Village
Mr Y Chu Fung Leung	Head	Internal Audit	27 May 2008	Workshop for Internal Auditors organized by ICAC	Rajiv Gandhi Science Centre, Bell Village

Appendix VII Recruitments

Mr Manilall Chintaram was appointed Consultant – Change Management with effect from 2 July 2007.

Dr Dnyansingh Bacorisen was appointed Research Officer with effect from 10 September 2007.

Mr Indranarain Ramlall was appointed Research Officer with effect from 21 September 2007.

Mr Mamode Hossen Gendoo was appointed Research Officer with effect from 24 September 2007.

Miss Harshana Kasseeah, **Mrs Kaveeta Nowbutsing-Hurynag** and **Mr Amardeepkumar Haulkhory** were appointed Research Officers with effect from 1 October 2007.

Mrs Jemima Kareesh Maitaram-Fekna was appointed Communications Officer with effect from 1 October 2007.

Mr Banysing Unmar was appointed Research Officer with effect from 17 October 2007.

Mr Nurani Subramanian Vishwanathan was appointed Director – Supervision with effect from 5 November 2007.

Mr Dev Kumar Daworaz was appointed Senior Bank Examiner with effect from 5 November 2007.

Mrs Soobadra Ramnauth and **Mr Kumaravel Mootoosamy** were appointed Bank Officers Grade I with effect from 5 November 2007.

Dr Devianee Mulliah was appointed Research Officer with effect from 3 December 2007.

Mr Karankumar Pitteea was appointed Analyst with effect from 3 December 2007.

Miss Monisha Lyna Jany Singh Jhamna was appointed Research Officer with effect from 7 December 2007.

Mr Mahendra Mohesh and **Mr Feisal Bin Khalid Sooklall** were appointed Analysts with effect from 3 January 2008.

Mr Sahadeosing Gungabissoon was appointed Senior Bank Examiner with effect from 3 January 2008.

Mrs Ajagee Cooroopdoss, **Mr Rajeev Luchmun** and **Mr Yahseen Mohammad Peerbocus** were appointed Bank Officers Grade I with effect from 3 January 2008.

Mr Suttish Boodoo was appointed Safety and Health Officer with effect from 3 January 2008.

Miss Bibi Noorjahan Issack was appointed Analyst with effect from 14 January 2008.

Mr Satishingh Jugoo was appointed Analyst with effect from 21 January 2008.

Miss Mahima Mudhoo, **Mr Nandkumar Daworaz** and **Mr Zahid Luftullah Mohoboob** were appointed Analysts with effect from 4 February 2008.

Mr Outrayen Murdaye was appointed Senior Security Officer with effect from 1 April 2008.

Mr Manohur Ubheeram, **Mr Sunil Kumar Betun** and **Mr Khemraj Aubeeluck** were appointed Security Officers with effect from 1 April 2008.

Mr Manilall Jhugroo was appointed Assistant Security Manager with effect from 2 May 2008.

Appendix VIII Appointments

Mr Hemraz Oopuddhye Jankee, Director – Research, was appointed Chief Economist with effect from 3 July 2007.

Mr Mardayah Kona Yerukunondu, Assistant Director – Legal, was appointed Director – Change Management Office with effect from 10 July 2007.

Mr Mahendra Vikramdass Punchoo, Assistant Director – Research, was appointed Head – Economic Analysis Division with effect from 3 September 2007.

Mr Jitendra Nathsing Bissessur, Assistant Director – Research (Statistics), was appointed Head – Statistics Division with effect from 3 September 2007.

Mr Jaywant Pandoo, Assistant Director – Financial Markets Department, was appointed Head – Financial Markets Operations Division with effect from 3 September 2007.

Mrs Marjorie Marie Agnes Heerah-Pampusa, Assistant Director – Financial Markets Department, was appointed Head – Financial Markets Analysis Division with effect from 3 September 2007.

Mr Grooduth Daboo, Research Assistant, was appointed Research Officer with effect from 3 September 2007.

Mrs Najma Nabee, **Mrs Malini Ramdhan** and **Mr Jean Claude Benoit Chamary**, Senior Bank Examiners were appointed Chief Bank Examiners with effect from 20 September 2007.

Mr Gunness Gonpot, **Mr Ramchandradea Naggea** and **Mr Harryram Ramsurn**, Senior Bank Officers, were appointed Chief Bank Examiners with effect from 20 September 2007.

Miss Marie-Line Gilberte Philibert, **Mrs Lily Claude Bastien Sylva** and **Mrs Pratima Keerodhur**, Bank Examiners Grade I, were appointed Senior Bank Examiners with effect from 20 September 2007.

Mrs Sharoni Devi Purryag and **Mr Rajcoomasingh Dawonath**, Bank Officers Grade I, were appointed Senior Bank Examiners with effect from 20 September 2007.

Mr Shardhanand Gopaul and **Mr Beemalsingh Jawaheer**, Internal Auditors were appointed Senior Bank Examiners with effect from 20 September 2007.

Mrs Vijayantimala Ramful, **Junior Dealer** was appointed Senior Bank Examiner with effect from 20 September 2007.

Mrs Ouma Purmessur Dookhit, Bank Officer Grade III was appointed Bank Officer Grade I with effect from 21 September 2007.

Mr Radhakrishnan Sooben, Assistant Director – Research, was appointed Head – Corporate Services Division with effect from 10 October 2007.

Mr Jayendra Kumar Ramtohul, Assistant Director – Accounting, Budgeting and Payment System Department, was appointed Head – Accounting and Budgeting Division with effect from 10 October 2007.

Mr Dhanesswurnath Thakoor, Senior Analyst Programmer was appointed Head-Payments System and MCIB Division with effect from 10 October 2007.

Mr Ramsamy Chiniah, Assistant Director – Supervision, was appointed Head – Regulation, Policy and Licensing Division with effect from 10 October 2007.

Mrs Sudha Hurrymun, Chief Bank Examiner, was appointed Head – Supervision, On-Site Division with effect from 10 October 2007.

Mr Anil Kumar Tohooloo, Manager – Finance, was appointed Head – Banking and Currency Division with effect from 10 October 2007.

Mr Yuntat Chu Fung Leung, Manager – Internal Audit, was appointed Head – Internal Audit Division with effect from 10 October 2007.

Mr Atmanand Jhary and **Mr Sanjay Ramnarainsing**, Senior Accounts Officers – Accounting, Budgeting and Payment System Department, were appointed Chiefs – Accounting and Budgeting Division with effect from 14 November 2007.

Mr Darmayash Dev Belut, Administrative Officer – Accounting, Budgeting and Payment System Department, was appointed Chief – Banking and Currency Division with effect from 14 November 2007.

Mr Noel Josue Cangy, Administrative Officer – Currency Office, was appointed Chief – Banking and Currency Division with effect from 14 November 2007.

Appendix VIII Appointments

Mr Neetyanand Kowlessur, Senior Research Officer and **Mr Dooneshsingh Audit**, Research Officer, were appointed Chiefs – Economic Analysis Division with effect from 14 November 2007.

Mrs Padma Sandhya Hurree Gobin, Senior Research Officer, was appointed Chief – Statistics Division with effect from 14 November 2007.

Mrs Powkeem Lo Tiap Kwong and **Mr Chitananda Ellapah**, Research Officers, were appointed Chiefs – Statistics Division with effect from 14 November 2007.

Mrs Hemlata Nundoochan, Research Officer, was appointed Chief – Financial Markets Analysis Division with effect from 14 November 2007.

Mr Shardanand Gopaul, Senior Bank Examiner was appointed Chief – Financial Markets Operations Division with effect from 14 November 2007.

Mr Chandradeo Sharma Rutah, Internal Auditor was appointed Chief – Internal Audit Division with effect from 14 November 2007.

Mr Shakti Proag, Manager – Property, was appointed Chief – Facilities Management Section with effect from 14 November 2007.

Mr Narainsingh Mundboth, Technical Officer Grade A – Property Section, was appointed Chief – Facilities Management Section with effect from 14 November 2007.

Mr Ng Cheong Jose Li Yun Fong, Assistant Director – IT, was appointed Chief – IT with effect from 14 November 2007.

Mrs Tilotma Gobin Jhurry and **Mr Prithviraj Seeballuck**, Senior Bank Officers - MCIB, were appointed Chiefs – Payments System and MCIB Division with effect from 14 November 2007.

Mr Jayvind Kumar Choolhun, Manager, Financial Markets Department, was appointed Chief – Financial Markets Operations Division with effect from 14 November 2007.

Mrs Vijayantimala Ramful, Senior Bank Examiner, **Mrs Aarti Jang**, **Mr Ved Prakash Anand Koonjul** and **Mr Janayswur Moosoohur**, Junior Dealers, were appointed Analysts – Financial Markets Operations Division with effect from 15 November 2007.

Mrs Yasmatee Seeburrun, Bank Officer Grade I, was appointed Senior Bank Examiner with effect from 15 November 2007.

Miss Lakshmi Appadoo, Administrative Officer – Legal Section, was appointed Chief – Governor's Office with effect from 17 December 2007.

Mr Youssouf Waesh Khodabocus, Senior Economist was appointed Chief – Monetary Policy Unit with effect from 17 December 2007.

Mr Brian Kwok Chung Yee was appointed Executive Assistant, First Deputy Governor's Office, with effect from 17 December 2007.

Dr Dnyansingh Bacorisen, Research Officer, was appointed Executive Assistant, Second Deputy Governor's Office, with effect from 17 December 2007.

Mr Keshwarajsingh Ramnauth, Research Officer, was appointed Chief – Knowledge Management Centre with effect from 25 January 2008.

Mr Anil Kumar Ramkurrun, Senior Bank Officer, Accounting, Budgeting and Payment System Department, was appointed Chief – General Services with effect from 25 January 2008.

Mr Deenesh Ghurburrun, Chief Bank Examiner, was appointed Head–Supervision, Off-Site Division with effect from 27 May 2008.

Appendix IX Retirements / Resignations

Retirements

Mrs Marie Ginette Coiffic, Bank Officer Grade II, retired from the service of the Bank with effect from 16 July 2007.

Mrs Guianooradha Seeballuck, Senior Confidential Secretary and **Mrs Nazly Bibi Ackbarally Khadaroo**, Bank Officer Grade II, retired from the service of the Bank with effect from 25 October 2007.

Mr Rajcoomar Dobee, Bank Attendant Grade III, retired from the service of the Bank with effect from 1 January 2008.

Mr Yousouf Rajabalee, Manager – Banking and Currency Division, retired from the service of the Bank with effect from 19 February 2008.

Mr Narainduth Juddoo, Administrative Officer, Banking and Currency Division, retired from the service of the Bank with effect from 20 February 2008.

Mrs Bhagiawatee Yerrigadoo, Manager – Financial Markets Operations Division, retired from the service of the Bank with effect from 5 March 2008.

Mr Partab Mungroo, Bank Attendant Grade I, retired from the service of the Bank with effect from 5 May 2008.

Mr Marie Roger Christian Noel, Chief Bank Examiner, retired from the service of the Bank with effect from 22 May 2008.

Miss Monique Marie Louise Evelyne Renaud, Confidential Secretary, retired from the service of the Bank with effect from 16 June 2008.

Resignations

Mrs Jemima Kareesh Maitaram-Fekna, Communications Officer, resigned from the service of the Bank with effect from 1 January 2008.

Mr Zahid Luftullah Mohoboob, Analyst, Economic Analysis Division, resigned from the service of the Bank with effect from 21 February 2008.

Mr Suttish Boodoo, Safety and Health Officer, resigned from the service of the Bank with effect from 21 April 2008.

Mr Devraj Gukhool, Analyst Programmer, resigned from the service of the Bank with effect from 31 May 2008.

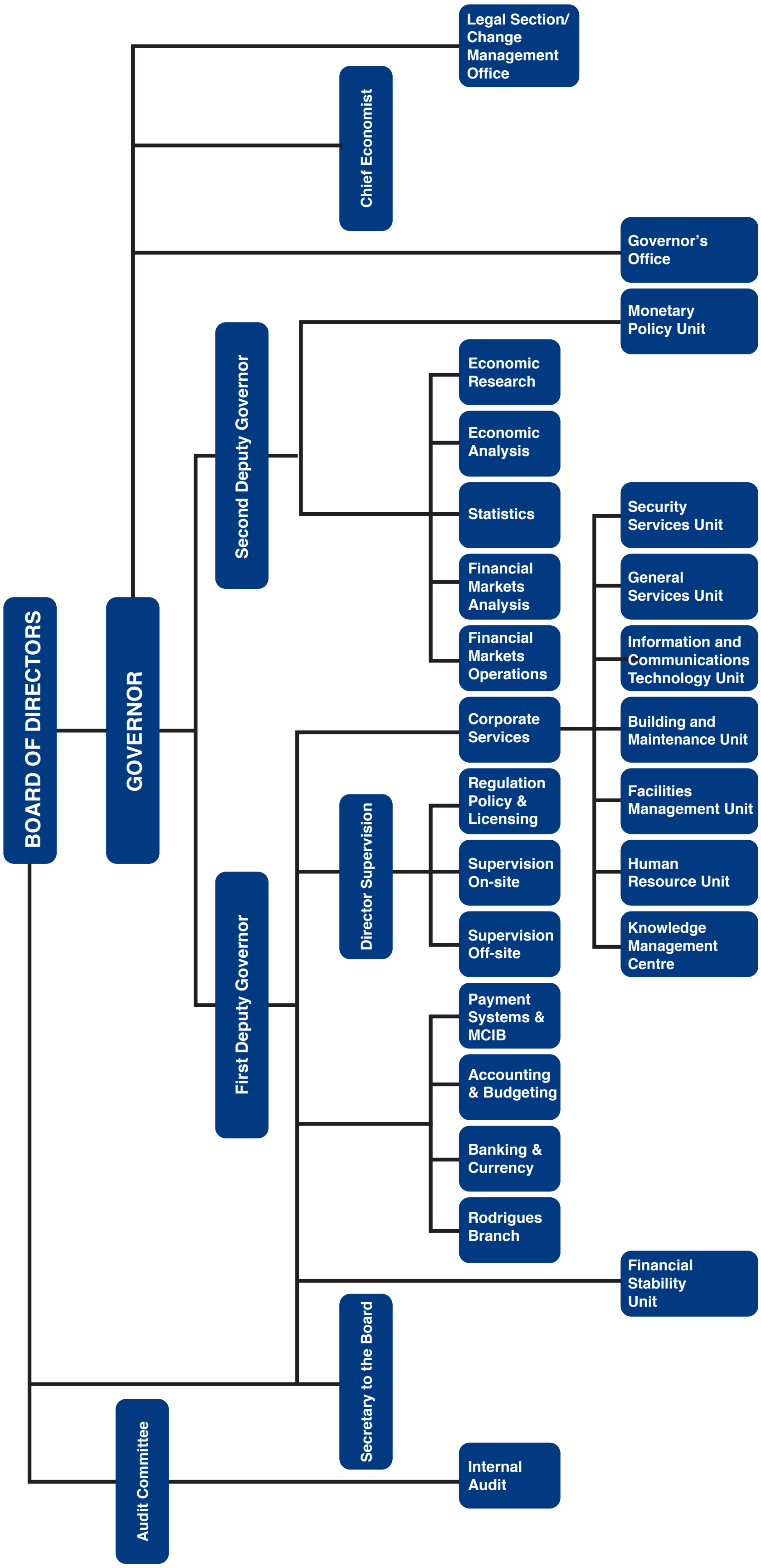
Appendix X Completion of Studies

Mrs Bindoomatee Gungaram, Bank Officer Grade I, was awarded the degree of BSc(Hons) in Financial Services by the University of Mauritius in July 2007.

Mr Chetanand Christna, Bank Officer Grade I, completed the examinations of The Chartered Institute of Management Accountants (CIMA) in July 2007.

Mr Hossen Sadool, Bank Officer Grade I, was awarded the degree of Bachelor of Commerce by the University of South Africa in September 2007.

Appendix XI Organisation Chart



Appendix XII List of banks, non-bank deposit-taking institutions, money-changers and foreign exchange dealers licensed by the Bank of Mauritius

The following is an official list of banks holding a Banking Licence, institutions other than banks which are licensed to transact deposit-taking business and cash dealers licensed to transact the business of money-changer or foreign exchange dealer in Mauritius and Rodrigues as at 30 June 2008.

Banks Licensed to carry Banking Business

1. AfrAsia Bank Limited
2. Bank of Baroda
3. Banque des Mascareignes Ltée
4. Barclays Bank PLC
5. Deutsche Bank (Mauritius) Limited
6. First City Bank Ltd
7. Habib Bank Limited
8. HSBC Bank (Mauritius) Limited
9. Indian Ocean International Bank Limited
10. Investec Bank (Mauritius) Limited
11. Mauritius Post and Cooperative Bank Ltd
12. P.T Bank Internasional Indonesia
13. SBI International (Mauritius) Ltd.
14. South East Asian Bank Ltd
15. Standard Bank (Mauritius) Limited
16. Standard Chartered Bank (Mauritius) Limited
17. State Bank of Mauritius Ltd
18. The Hongkong and Shanghai Banking Corporation Limited
19. The Mauritius Commercial Bank Ltd.

Non-Bank Deposit-Taking Institutions

1. ABC Finance & Leasing Ltd.
2. Barclays Leasing Company Limited
3. Capital Leasing Ltd
4. Finlease Company Limited
5. Cim Leasing Ltd
6. Global Direct Leasing Ltd
7. La Prudence Leasing Finance Co. Ltd
8. Mauritius Housing Company Ltd
9. Mauritian Eagle Leasing Company Limited
10. SBM Lease Limited
11. SICOM Financial Services Ltd
12. The Mauritius Civil Service Mutual Aid Association Ltd
13. The Mauritius Leasing Company Limited

Money-Changers (Bureaux de Change)

1. Change Express Ltd.
2. Max & Deep Co. Ltd
3. Gowtam Jootun Lotus Ltd [1]

Foreign Exchange Dealers

1. British American Exchange Co. Ltd
2. Cim Forex Ltd
3. Thomas Cook (Mauritius) Operations Company Limited
4. Shibani Finance Co. Ltd

[1] The Bank has suspended the Licence granted to Gowtam Jootun Lotus Ltd to carry on the business of money-changer with effect from 26 January 2006.

Picture number	*Persons appearing in pictures from left to right*
1	Representatives of Religious Bodies at an Interfaith Prayer on 18 August 2007 at the Bank's Tower
2	Staff of the Bank at the Interfaith Prayer
3	Guests and Staff at the Interfaith Prayer
4	Lady S. Jugnauth, Governor R. Bheenick, the President of the Republic of Mauritius, Sir A. Jugnauth and Mrs P. Bheenick on the occasion of the Commemoration Dinner on 24 August 2007
5	Mrs V. Ramgoolam, the Prime Minister, Dr the Honourable N. Ramgoolam, Governor R. Bheenick and Mrs P. Bheenick at the Commemoration Dinner on 24 August 2007
6	Guests at the Commemoration Dinner
7	Mr A. Sukraj, President of the Mauritius Amateur Athletic Association, the Minister of Youth and Sports, Honourable S. Wah Hing Tang and Governor R. Bheenick at the national Inter Club Youth Championships sponsored by the Bank, Maryse Justin Stadium, 1 September 2007
8	Participants of the national Inter Club Youth Championships
9	Governor R. Bheenick congratulating some winners of the national Inter Club Youth Championships
10	Staff attending a seminar dispensed by the Ministry of Health and Quality of Life in the context of a Health Week organised in October 2007
11	An officer of the Ministry of Health and Quality of Life giving a talk to Staff
12	The 100th donor at a Blood Donation day held at the Bank on 26 October 2007
13	Professor P. Bacchetta, Director of the Study Centre Gerzensee, delivering a Memorial Lecture on 'Financial Market Development and Economic Growth' on 22 October 2007 in the context of the Financial Literacy Programme
14	Discussants at the Memorial Lecture, Mr P. Agarwal, Vice President (Mauritius Operations) of the Bank of Baroda, Professor R. Lamusse, Vice-Principal of EILM University and Mr Y. Googoolye, First Deputy Governor of the Bank of Mauritius
15	Guests and staff attending the Memorial Lecture
16	Mr S. Uppal, Chief Executive Officer of the Hong Kong and Shanghai Banking Corporation Ltd, Prof P. Bacchetta, Dr A. J. Khadaroo, Second Deputy Governor of the Bank of Mauritius and Professor S. Gerlach from the Johann Wolfgang Goethe, University of Frankfurt and Member of the Monetary Policy Committee of the Bank of Mauritius at a Memorial Lecture on 'Monetary Policy in Small Financial Centres' delivered by Prof. Gerlach on 25 October 2007
17	Participants of a Six-a-Side tournament organised for staff on 3 November 2007: Messrs D. Soobdhan, N. Boojhawon, R. Boodhun, T. Cheeneebash, B. Cassy and D. Doolar
18	Governor R.Bheenick and Mrs G. Coiffic at a Staff Lunch held on 10 November 2007
19	Governor R. Bheenick, Mr D. Maraye, former Governor, Dr A.J. Khadaroo and Mr P. Mungroo at the Staff Lunch
20	Mr R. Bhatia, Macroeconomist and Regional Integration Consultant, Mr A. Withers, Chief Executive-Banking at The Mauritius Commercial Bank Ltd, Governor R. Bheenick and Professor B. Persaud, former Director and Head of Economic Affairs Division of the Commonwealth Secretariat and Professor of Economics at the University of West Indies at a Memorial Lecture on 15 November 2007
21	Professor B. Persaud, delivering the Memorial Lecture on 'Trade, Finance and Currency: Interrelationships with Special Reference to a Small Economy' on 15 November 2007
22	Mr Y. Noormamode, President of the EDYCS Epilepsy Group receiving proceeds of Charity Dinner organised by the Bank in collaboration with Barclays Bank on 17 November 2007
23	Dr A. Sorefan, President of Alzheimer Association receiving proceeds of charity dinner organised by the Bank in collaboration with Barclays Bank on 17 November 2007
24	Deputy Prime Minister Honourable X. L. Duval, Mr M. Ramphul, Director of the Board of the Bank of Mauritius, Mr G. Bingham, Secretary General of the Central Bank Governance Forum of the Bank for International Settlements, Dr A. J. Khadaroo and Mr J. Li Wan Po, Director of the Board of the Bank of Mauritius at the laying of the foundation stone of the Bank of Mauritius new building at Port Mathurin, Rodrigues on 24 November 2007
25	Mr J. Roussety, Chief Commissioner for Rodrigues, the Deputy Prime Minister, Hon. X. L. Duval and Governor R. Bheenick at the launch of the campaign on Consumer Education at Rodrigues on 24 November 2007
26	The Minister of Agro Industry, Dr the Honourable A. Boolell and Governor R. Bheenick at a 'Turning of the First Sod' Ceremony for a Bamboo Garden at Midlands on 26 November 2007
27	Mr R. Bassenoo, Chairman of District Council of Grand-Port/ Savanne, Mr Y. Googoolye, Hon. Dr A. Boolell, Governor R. Bheenick and Dr A. J. Khadaroo at Midlands on 26 November 2007
28	Professor S. Jugessur, Pro-Chancellor and Chairman of Council of the University of Mauritius, the Minister of Education and Human Resources, Honourable D. Gokhool, Governor R. Bheenick, the Governor of the Reserve Bank of India, Dr Y. V. Reddy and Mr A. Withers at a Memorial Lecture at the University of Mauritius on 3 December 2007.
29	Governor Dr Y. V. Reddy at the University of Mauritius on 3 December 2007 delivering a Memorial Lecture on 'The Rise of Asia: Implications for the Global Economy'
30	Staff and their children at an Open day at the Bank of Mauritius Tower on 1 December 2007
31	Miss S. Chuttoorgoon, daughter of a staff member of the Bank, at the Open Day.
32	The Governor of the Central Bank of Ghana, Dr P. Acquah delivering a Memorial Lecture on the 'Reform of the Bretton Woods Institutions: An African Perspective' on 5 December 2007
33	Mr B. R. Gujadhur, former First Deputy Governor of the Bank of Mauritius, Governor P. Acquah, Governor R. Bheenick and Mr E. Ng Ping Cheun, Managing Director of Pluriconseil, at the Memorial Lecture on 5 December 2007
34	One of the winners of the Banknote Design competition at an Award Ceremony on 6 December 2007
35	Vice-President, Mr A. Chettiar, Governor R. Bheenick and Governor P. Acquah at the launch of a silver commemorative coin and a new Rs20- coin on 6 December 2007
36	Governor P.Acquah, Mr P. Agarwal, Mr J. de Navacelle, Managing Director of the Mauritius Union Assurance Co Ltd, Mr A. Currimjee, President of the Mauritius Chamber of Commerce & Industry and Mr M. Gopal, Chairman of the Mauritius Employers' Federation at the Closing Dinner on 6 December 2007
37	Mr J. de Navacelle, Mr A. Currimjee, Mr M. Gopal and Mr Y. Googoolye at the Closing Dinner on 6 December 2007

ACKNOWLEDGEMENTS

The preparation of this Report was coordinated by a team comprising Mr J N Bissessur, Ms N Lo Tiap Kwong, Messrs F Sooklall and S Jugoo and Dr D Bacorisen.

Contributions for the various chapters in the Report were made by the following officers:

Mr V Punchoo for the chapter on *Review of the Economy*; Ms M Mudhoo for the chapter on *National Income and Production* and *Labour Market*; Mr G Beegoo for the chapter on *Prices*; Messrs G Beegoo, G Daboo, M Mohesh, M Gendoo and Mrs N Lo Tiap Kwong for the chapter on *Money and Banking*; Mr W Khodabocus for the chapter on *Monetary Policy*; Messrs C Ellapah and G Daboo for the section on *Maintenance of Cash Ratio*; Messrs M Mohesh and C Ellapah for the chapter on *Interest Rates* and *Government Finance*; Messrs A Haulkhory and S Jugoo, Dr (Mrs) D Mulliah-Hurchand and Mrs P Hurree-Gobin for the chapter on *External Trade and Balance of Payments*; Mr A Haulkhory, Mr S Jugoo and Mrs P Hurree-Gobin for the Boxes on *Coordinated Portfolio Investment Survey (CPIS)* and *International Investment Position of Mauritius*; Ms M Jhamna and Mr N Kowlessur for the chapter on *Southern African Development Community (SADC)*; Mr S Ramrutton for the chapter on *Common Market for Eastern and Southern Africa (COMESA)*; Mr R Chinniah, Mr H Ramsurn, Mr G Gonpot, Ms M Lauricourt for the chapter on *Regulation and Supervision*; Mr D Ghurburrun, Mr S Ramnarainsing, Mr J C Chamary, Mr R Naggeea, Mr A Massafeer, Mr D Rughoobur, Mr B Kwok, Mrs S Purryag, Mr S Vadeevaloo for the chapter on *Performance of Banks and Non-Banks*; Mr P Nundlall for the *Appendix* on *List of financial institutions licensed by the Bank of Mauritius*; Messrs J Choolhun and J Pandoo for the chapter on *Financial Markets Developments*; Mr P Koonjul and Mrs V Ramful for the chapters on *Money Market Activity* and *Foreign Exchange Market*; Mr J Moosoohur for the chapter on *Public Debt Management*; Mr N Daworaz and Mr K Pitteea for the chapter on *Exchange Rate Developments*; Mr N Daworaz for the chapter on *Capital Market Developments*; Mrs V Soyjaudah for the chapter on *Financial Stability*; Messrs S Ramnarainsing, A Jhary and J Ramtohul for the chapter on *Accounting and Budgeting*; Mrs T Gobin-Jhurry and Mr V Thakoor for the chapter on *Payment Systems and Mauritius Credit Information Bureau*; Messrs D Belut and N J Cangy for the chapter on *The Banking Office* and *The Currency Office*, respectively; Messrs R Sooben and N Sultanti for the chapter on *Corporate Services*; Mr K Ramnauth for the section on *Knowledge Management Centre*; Messrs N Bakurally and B Doolar and Ms H Tylamma for the section on *Human Resource Unit*; Messrs A Dowlut and B Baijnath for the section on *Information and Communications Technology Unit*; Mrs H Sewraj-Gopal for the chapters on *Corporate Governance* and *Audit Committee Report* and Mr M Kona Yerukonundu for the Box on *Restructuring of the Bank*.

Photo credits for the coverage of the 40th anniversary events: Mr M Nawoor and Mr K Muthy.

The programme for the 40th Anniversary Celebrations was coordinated by a team led by Ms L. Appadoo, Chief-Governor's Office.

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